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INVESTING IN AMERICA'S INFRASTRUCTURE: SHORT- AND LONG-TERM STRATEGIES

(103–6)

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

OF THE

COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

JANUARY 15; FEBRUARY 2, 3, 1993

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U.S. House of Representatives

COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

SUITE 2165 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-4472

January 14, 1993

MEMORANDUM

TO: Members, Subcommittee on Economic Development

FROM: Subcommittee Staff

SUBJECT: SUMMARY OF SUBJECT MATTER - HEARING OF JANUARY 15, 1993

INVESTING IN AMERICA'S INFRASTRUCTURE: SHORT AND LONG-TERM STRATEGIES – THE NEED FOR ECONOMIC STIMULUS

On Friday, January 15, 1993 at 9:30 AM, 2167 RHOB, the Subcommittee will begin a series of hearings on the subject of "Investing in America's Infrastructure: Short and Long-term Strategies". Witnesses for the first day have been invited to address the need for economic stimulus.

As new data becomes available about the condition of our economy – about rates of unemployment and job growth, about the Gross Domestic Product (GDP) and the budget deficit and a host of other indicators – the dialogue grows about a trade-off between Federal investments in core infrastructure and human capital versus reducing the deficit.

Clearly, the size of the budget deficit has a tremendous impact on public and private investment and strengthening our economic growth. But, investment to promote a healthy economy and upgrade the standard of living for our citizens depends also on

adequate infrastructure to improve our productive capacity for the future as well as training and technological advances. Among the questions to be considered are: Is it wise to look at these issues in either/or terms; or should we view them both as essential elements to enhance economic growth that must be dealt with simultaneously?

The purpose of these hearings is to help us assess the many factors involved. We want to review the options facing both the Congress and the new Administration as we seek to set priorities, develop policy directions to improve our Nation's economy, create more jobs, and enhance our competitive position in a global economy.

State of the Nation's Economy: For several months the Nation's economy has struggled to maintain a positive recovery from the recession which began in 1990. Technically, the recession ended in March or April 1991. In the third quarter of 1992 the Nation's gross domestic product grew at an annual rate of 3.4 percent.

For 1993, analysts are predicting a relatively slow rate of growth varying between 2.8 percent to slightly over 3 percent. This is considerably less than the average growth rate of nearly 6 percent following four previous recessions since World War II. Inflation for 1993 is predicted to hold at a 3 percent rate and our dollar is expected to be stronger against the Japanese yen and the German mark.

Clearly, the modest growth predicted for 1993 will not affect all regions of the Nation evenly nor will all industries experience recovery at the same rate.

The Commerce Department, in its recently released annual industrial-outlook report, forecast a moderate but broad-based recovery in 1993 with most sectors experiencing growth although at varying rates. High-tech industries (computers and semiconductors) are likely to do well along with medical equipment, the durable-goods

sector (including autos), and industrial machinery and metal-working equipment. Aircraft, aerospace and related businesses will move more slowly and the construction sector will continue to be somewhat weak. Many service industries should do reasonably well with home entertainment, apparel and restaurants expected to lead. However, despite the predicted growth in manufacturing, significant job growth in that sector is not expected.

As our domestic economy grows, imports are expected to show an increase. This could, however, reverse the recent positive trend of the trade deficit and have a negative impact, particularly if our exports decline due to economic slowdowns in Japan and Western Europe.

A matter of major concern is that the growth in the economy generally is not expected to create a significant number of new jobs. In 1992, new job growth averaged about 50,000 a month which is only 1/20th of one percent of total jobs. Economists are concerned that unless the 50,000 number is at least doubled in 1993, the economic expansion could stall as it did in 1991 and early in 1992.

Job gains reported in December 1992 were: 70,000 jobs in service industries; 15,000 in retailing; and 3,000 in manufacturing. Jobs in government declined by 22,000 and in construction by 5,000. In total, jobs in December increased by only six one-hundreds of one percent.

The number of discouraged workers was 1.1 million in the fourth quarter of 1992 and an estimated 6.3 million people were working only part time in December for economic reasons, according to Bureau of Labor Statistics data.

In a recent poll conducted by Blue Chip Economic Indicators, 50 leading economists

forecast an increase of 1.59 million jobs in 1993, which is almost three times the 557,000 nonfarm jobs reportedly created in 1992. While the predicted increase would be the best employment performance since 1989, it certainly will not match the job growth in the recovery period following the recession of the early 1980's. In 1983, there was an increase of 3.5 million jobs and in 1984 an increase of 3.98 million. In fact, according to Blue Chip figures, this degree of job growth would be sufficient only to take the present employment rate of 7.3 percent down to 7.0 percent for all of 1993.

The national civilian unemployment rate was 7.3 percent in December 1992, the same as in November. This is down from the year's high of 7.7 percent in June 1992 but higher than the 7.1 percent rate of December 1991. Attached is a copy of the December unemployment rates for 11 major industrial states.

Consumers, showing renewed confidence, gave retailers the best Christmas sales in about four years. But the December increase was due to the Christmas season surge in credit purchases and not due to any underlying increase in incomes. Thus, it may not be sustained. Analysts have pointed out, however, that consumers must feel reasonably secure about a growing economy and see gains in jobs and income if they are to continue to increase spending.

Attachments:

Witness List

Unemployment rates - 11 major industrial states

Chart - National Non-Agricultural Employment

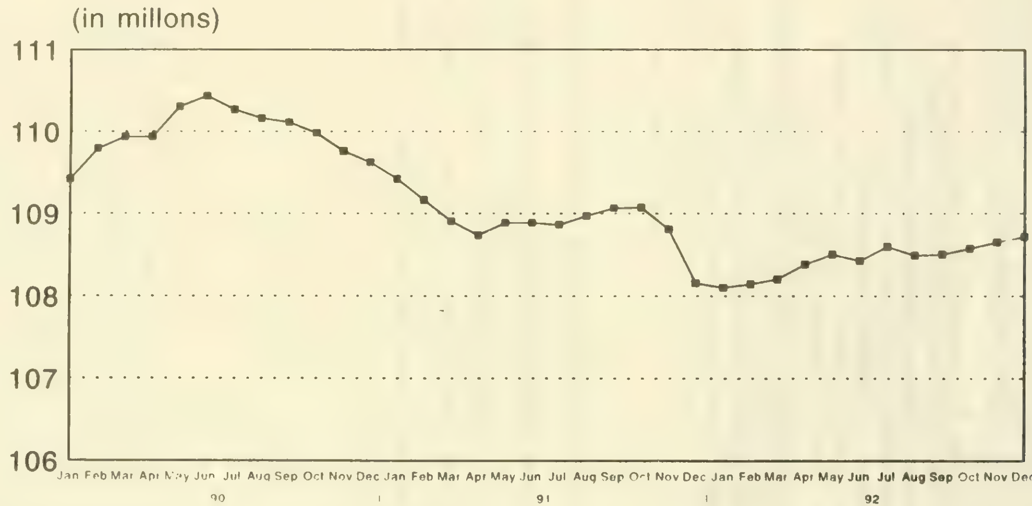
READ 44
44 AP 01-08-93 09:07 AET 19 LINES
BC-Unemployment-States,100
With PM-Economy
WASHINGTON (AP) Here are the unemployment rates in December for 11 major industrial states as reported Friday by the Labor Department:

California, 9.7 percent, down from 10.1 percent in November.
Florida, 6.8 percent, down from 7.5 percent.
Illinois, 7.1 percent, up from 6.2 percent.
Massachusetts, 8.6 percent, down from 9 percent.
Michigan, 7.9 percent, unchanged.
New Jersey, 8 percent, down from 8.7 percent.
New York, 8.4 percent, up from 8 percent.
North Carolina, 5.5 percent, down from 5.9 percent.
Ohio, 7.2 percent, down from 7.4 percent.
Pennsylvania, 7.2 percent, up from 7.1 percent.
Texas, 7.8 percent, up from 7.6 percent.

National Non-Agricultural Employment

for Previous 36 Months

(January 1990 through December 1992)



*Data seasonally adjusted

INVESTING IN AMERICA'S INFRASTRUCTURE: SHORT- AND LONG-TERM STRATEGIES

FRIDAY, JANUARY 15, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT,
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 2167, Rayburn House Office Building, Hon. Robert E. Wise, Jr. (chairman of the subcommittee) presiding.

Mr. WISE. This hearing of the Economic Development Subcommittee of the Public Works and Transportation Committee will come to order.

I want to welcome all our witnesses here today and thank you for taking the time to be with us this morning, especially on such short notice. I am happy to inform you that you are participating in the first hearing that is being held in the House of Representatives of the 103rd Congress. With the cooperation of our full committee Chair, Mr. Mineta, and Ranking Member, Mr. Shuster, and of course the Ranking Member of the subcommittee, Ms. Molinari, I am delighted to say this committee thinks it can't wait for the inauguration and for a lot of other things to happen. But the mandate from the voters was loud and clear: We want action, and action in improving the economy. Certainly this is a key place to start.

I also want to welcome our subcommittee Members, many of whom junked their schedules to be here. I greatly appreciate the opportunity.

I want to promise you something. We will get greater notice of meetings of hearings in the future. As I say, we thought this was urgent.

The debate is on the degree to which there should be investment in America's infrastructure. We want to help develop that information.

Let me also inform Members that we will be holding an organizational meeting and we hope to have a notice out of that by Wednesday, January—I believe the meeting we are shooting for is Wednesday, January the 27th at 2:00 p.m.

Today the subcommittee begins its series of hearings on investing in America's infrastructure, short- and long-term strategies. We focus the first day on the need for economic stimulus.

New data has become important on the condition of our economy to the debate on whether infrastructure investments should be initiated quickly to bolster the economy and create jobs, or whether

we should simply concentrate on deficit reduction. I quite honestly think it is a twofold process, that both have a place. You can't reduce the deficit significantly over time unless you have growth. At the same time, deficit reduction is essential to that growth. But I have to stress the need for growth as well.

I get a bit concerned when I see that while we have been technically in a recovery for at least well over a year now, by economic definitions it is a recovery in which job growth is about one-third the rate of past recoveries.

I would point to you both these charts over here, but particularly the second chart which is national nonagricultural employment, and that is over a period of time. If you notice, it is basically a flat line.

Now, I happened to visit an intensive care unit recently. I was just a visitor, and when I walked in I noticed a heart monitor. If you get wheeled into a heart unit with an EKG and a heart line like that, they pronounce you dead or at least administer a stimulus as quickly as possible. I suggest our economy may be in the same situation.

So I think it is very worthwhile for us to be having this discussion.

We are also witnessing structural changes in our economy that resulted in the weakening of many old line industries—coal and steel in my own state, and everyone can point to some. We are of course witnessing the development of new industries.

Clearly the economic well-being of America is at stake. Although the Cold War has eased, we face enormous economic challenges from the rest of the world. I believe we are up to it, but I also believe it requires a new era of investment. Investment that is separated from consumption, and that focuses on a long-range strategic plan for both growth and long-range deficit reduction.

Simply cutting and cutting without putting in place that infrastructure to help you grow, I think turns out to be counterproductive. As I say, I believe we can incorporate both these strategies in the context of a long-term strategic plan.

The hearings—and I want to stress this begins a series of hearings—will look at means of stimulating economic development, additional private investment, and enhancing productivity.

I ask unanimous consent to introduce the rest of my statement for the record.

[Mr. Wise's prepared statement follows:]

OPENING STATEMENT OF THE HONORABLE BOB WISE CHAIRMAN, SUBCOMMITTEE ON ECONOMIC DEVELOPMENT FIRST DAY OF A SERIES OF HEARINGS ON INVESTMENT IN AMERICA'S INFRASTRUCTURE: SHORT AND LONG-TERM STRATEGIES

NEED FOR ECONOMIC STIMULUS

JANUARY 15, 1993

Today, the Committee is beginning a series of hearings on "Investing in America's Infrastructure: Short and Long-Term Strategies." The focus of this first day is on the need for economic stimulus. The issues we will be discussing are of fundamental significance.

As new data has become available concerning the condition of our economy, the debate on whether infrastructure investments should be initiated quickly to bolster the economy and create jobs or whether we should concentrate on reducing the budget deficit has intensified. Certainly it is a major topic of discussion by the media, by the President-Elect when interviewed and by his Cabinet appointees at confirmation hearings – and, it is a matter of considerable concern to many of us in the Congress, particularly Members of this Committee.

While technically the recovery from the recession started in the first quarter of 1991, the rate of growth has been agonizingly slow. Our Gross Domestic Product (GDP) for the year 1992 is estimated to have increased only at an average rate of 2.9 percent. For 1993, analysts are predicting continued slow growth varying on a quarterly basis between 2.8 percent to slightly over 3 percent. The present rates are way below the average growth rate of nearly 6 percent following four previous recessions that occurred since World War II and they are nowhere near strong enough to generate a significant number of new jobs.

The national civilian unemployment rate for last December was 7.3 percent, the same as the previous month. The good news was that the rate was down from the peak of 7.7 percent last June; the bad news is that it was higher than the rate of December 1991 at 7.1 percent. The number of discouraged workers, those who have stopped looking for work, was an estimated 1.1 million in the fourth quarter of 1992 and another 6.3 million people could only find part time work in December.

The present outlook is not too encouraging for these unemployed and underemployed people. 50 leading economists, recently polled by Blue Chip Economic Indicators, forecast an increase in 1993 of 1.59 million jobs – almost three times the nonfarm jobs created in 1992. But, again, job growth following this recession is nowhere near the number of jobs created following the recession of early 1980 when there was an increase of 3.5 million jobs in 1983 and another 3.98 million in 1984. Nor will it result in a dramatic drop in the unemployment rate.

Furthermore, we have witnessed many structural changes in our economy that have resulted in the loss or weakening of many old line industries – such as coal and steel in my own state of West Virginia – and the growth of new high tech industries requiring employees with new and different skills. In addition, many of the Nation's largest corporations are downsizing to be "lean and mean" in order to compete in global markets. Hundreds of thousands of workers are being let go in cost-saving measures or as new technology permits high production of goods and services with

fewer people. These are not recession-related job losses and are not likely to be regained.

Clearly, the economic well-being of Americans is at stake. Although the Cold War has eased, we are now facing serious economic challenges from the rest of the world.

I believe we are up to that challenge. However, I think that first, all of us – all levels of government as well as private industry – must overcome some short-sighted decisionmaking over the last several years that led us to ignore the benefits of long-term capital investment and concentrate on balancing books or budgets. I believe we need to incorporate both these strategies together.

We have an enormous responsibility before us to develop policies that will assure that the Nation continues to be a strong economic power and that will enhance the ability of industries to operate successfully in global markets.

This Committee has a long history of legislative activity that has shaped the growth of the Nation, changed life-styles, transformed the way we do business and spread economic development to every region of the country. Laws pertaining to early navigation on inland waterways, to clean water and sewerage treatment, to airports, to the Interstate Highway System authorized in 1956 and the Intermodal Surface Transportation Efficiency Act of 1991, are but a few notable examples.

Now we must determine how we can best use infrastructure investment to further economic development, to stimulate additional private investment, and to enhance productivity.

In my view, it is not enough to focus solely on monetary policy, tax incentives or deficit reduction. Given the high-unemployment-slow-growth condition of our economy, we must take more drastic action. We should move on both short-term and long-term programs. We must stimulate and rebuild our economy by providing the necessary support to encourage new business start-ups and enable existing business and industry to flourish, create jobs for our citizens, and compete on a global scale. Public infrastructure is an essential foundation that encourages growth in private investment and industry.

Before concluding my remarks I want to express my high regard for Norm Mineta, who chairs our Full Committee. He is very concerned and knowledgeable about these issues and has a wealth of experience, as a former mayor and as former chair of several Public Works and Transportation subcommittees. I look forward to working with him on these important matters before our Committee.

Mr. WISE. I want to thank the full committee Chair, Mr. Mineta, and the Ranking Member, Mr. Shuster, and Ms. Molinari, as well as other Members of the committee and our staffs for putting this hearing together, the first of several hearings to take place. I think it is extremely timely and we look forward to moving this topic and the debate on this diligently.

I now yield to the full committee Chair, Chairman Mineta for any remarks he might wish to make.

The CHAIR. Thank you very much.

Let me take an opportunity to welcome you back to full Committee on Public Works and Transportation. As all of you know, Bob has been on leave from the committee serving as one of the Speaker's appointees on the House Budget Committee.

He has been serving as Chairman of the Subcommittee on Government Information, Justice and Agriculture of the Government Operations Committee. He has given up his membership on the Government Operations Committee to return to the Committee on Public Works and Transportation.

This is Bob's first hearing as Chair of our Economic Development Subcommittee.

There is no doubt in my mind that the work of this panel could not be in better hands. I know that Bob, along with our Ranking Republican Member on the subcommittee, Susan Molinari of New York, will exercise great leadership as our committee takes the first steps in this new Congress towards creating jobs to help rebuild America. I know to that extent we also have the very strong commitment of our fine colleague from Pennsylvania, Mr. Shuster.

I believe that greater investment in our nation's infrastructure is absolutely necessary and essential to create jobs, improve our economy, to improve the quality of life for ourselves and our children. The Cold War is over, and now building prosperity here at home is our challenge. Yet the relative size of our defense budget and our domestic budget, which includes transportation and infrastructure, have not reflected this reality.

So I believe it is time to invest more money in America. That was the message to Washington, I believe, from the 1992 election. I believe that government can and should articulate genuine national priorities that will create jobs by making wise and much needed investments in our great nation.

The national unemployment figures released last week left no doubt in my own mind that we must find solutions to our economic problems, and quickly, and the figures that were released this morning by the Department of Labor and the Department of Commerce are no better and give us no insurance that in fact the economy is really turning around.

For the past 22 months, our economy has been growing just fast enough so that we are technically out of the last recession. But the fact of the matter is, as the Chairman has already pointed out, the economy is not growing fast enough to generate any significant recovery in the number of jobs.

The current rate of unemployment in America is actually higher than it was in the last month of the 1990–1991 recession. In fact, today there are 200,000 fewer jobs in the economy than there were then.

Very simply, a recovery that does not generate new jobs is not a sustainable recovery, and without stronger economic growth, the United States will not generate a significant number of new jobs.

Today I believe that Congress must take action, put our economy on a stronger road to recovery. If we can accomplish that, then every other economic challenge before us, including deficit reduction, will be far more within our reach. But trying to reduce the deficit in a weak-growth economy simply will not work, no matter how worthy a goal deficit reduction is or how hard we try to achieve that goal.

In short, this is not a case of having to choose between economic investment and deficit reduction. On the contrary, if we do not invest in economic growth, we will not achieve deficit reduction.

There are, of course, many different ways for government to help generate increased growth. In the past, we often funded public service jobs as an example. Today, I believe it makes more sense to spend money on those programs which will not only generate jobs but build the foundation of a more efficient and competitive economy for many years to come.

So that means investing in the physical plan of our society: roads, bridges and transit, water systems and airports, among others, as examples. These are the facilities that determine how we can move goods and people productively and thereby provide more and better jobs to America.

The better we are at achieving these investments, the more productive our economy will be and the more prosperous our standard of living will be. It is in that environment, and that discussion that I look forward to today from committee Members and from the diverse and distinguished panel of witnesses who will be before us during these hearings.

Again, I wish to commend our Chair, Bob Wise of West Virginia, and Susan Molinari and the panel here for their foresight and vision in holding what I consider the most important hearing to start here in the Congress. Thank you very, very much.

Mr. WISE. Thank you, Mr. Chairman.

I now recognize the Ranking Member, someone who is instrumental in this hearing happening, Susan Molinari.

Ms. MOLINARI. Thank you, Mr. Chairman.

I just wanted to state that I think we all agree on so many points that have been mentioned already, with the possible exception of one part of your opening statement. You said, I know we all can't wait for the inauguration.

I do share your enthusiasm for today's hearing on investing in America's infrastructure and I commend you for working to put this subcommittee out in front on the matter.

Governor Clinton's economic summit in Little Rock provided us with a good starting point. By bringing this debate to Capitol Hill, we can now hash this issue out in the People's House. I look forward to hearing what our distinguished panel has to say today and I expect the testimony presented today and in the hearings to follow will enable us to better evaluate the needs of the economy at this time.

Mr. Chairman, as you know I share your belief that long-term investment in our nation's infrastructure is essential to the produc-

tivity of America's business. We need only to look at my home in New York City to see how the neglect of our infrastructure can wreak havoc on productivity. Due to lack of proper maintenance, from time to time New York City's bridges tend to fall down. Unfortunately, it is not just our bridges. It extends to all parts of our infrastructure; subway lines and roadways are closing because of rusting viaducts. There is no question we have a lot to do.

The Public Works and Transportation Committee's dedication to addressing these needs was clearly represented last year by our work on the $151 billion Intermodal Surface Transportation Efficiency Act, signed by George Bush 12 months ago. While ISTEA focused only on our surface transportation needs, it is a model for the type of initiative that must be pursued to reclaim our failing infrastructure.

Given our current fiscal constraints and the American people's desires to focus on eliminating the budget deficit, we must prod our colleagues on key committees to work quickly, so that such an economic package can be incorporated into an overall deficit reduction plan and enacted swiftly.

We all agree that we can't move forward with any economic stimulus plan unless it is part of a package that will truly reduce the deficit.

Again, Mr. Chairman, I want to thank you for putting this committee out in front so we can ask the important questions, questions that remain in every American's mind: How much can we afford to do; what can we afford not to do? And if we move forward with an economic stimulus plan, investing in our infrastructure, how can we do it and increase our productivity as a nation at the same time?

I want to thank you for bringing us together and I want to particularly thank the new Members of the committee who have shown up here today. The Public Works and Transportation Committee is the place to be. It was the most requested committee by new Members. And that is quite a change; that is, not only a change that reflects the attitudes of new Members of Congress, but the new attitude of Americans. An attitude, that I think is long overdue. And an attitude that is eivident in the country's desire to address the issues before us today.

Thank you, Mr. Chairman.

I would like to yield to my Ranking Minority Member, Bud Shuster.

Mr. SHUSTER. Thank you, Susan.

I want to congratulate the leadership of this subcommittee for putting together this hearing, the first hearing in this new Congress, and congratulate you on providing the leadership.

The Public Works and Transportation Committee has a long history of not only fulfilling its responsibility in terms of our having the jurisdiction for infrastructure matters, but taking that jurisdiction and applying it and using it productively for the well-being of our country.

There certainly is one campaign promise that President-elect Clinton made that we Republicans want to help in every way come true. That is the promise to focus on infrastructure and rebuilding America. Of course, there is a short-term interest in infrastructure,

jump starting the economy, increasing jobs, and that is something that is certainly laudatory.

There is the longer term interest, however, which I believe is much more significant, and that is an interest in long-term investment in infrastructure so we increase the productivity of our country. That, it seems to me, is the most important aspect of what we are trying to do here, and the jump starting, short term part of it is a by-product of that longer, even more significant effort that we should make here today.

And there is nothing more important and there should be nothing easier for us to do than to, as a first step, provide full funding for ISTEA, for the transportation bill that we passed last year. We passed a bill which provided for about $26 billion to be spent in 1993, and there is a shortfall in what is actually going to be spent. We have been short changed by $4 billion. So only about 85 percent of the money that should be spent to build infrastructure, to create real jobs, is scheduled to be spent.

Now, this is wrong. It is wrong because the money is there. The money is in the Highway Trust Fund. The vast majority of the money to be spent in ISTEA is trust fund money. It doesn't contribute, shouldn't contribute under fair and honest accounting practices to the general fund deficit. The money is there, it should be spent, and the first thing we should do is fight to have ISTEA fully funded.

Beyond that, I hope our focus will be on long-term infrastructure so we can increase productivity in America and along the way jump start the economy as well.

Thank you very much.

Mr. WISE. Thank you, Mr. Shuster.

I will now recognize Members of the subcommittee for brief opening remarks. I ask consent to change the schedule a little bit. Mayor Flynn of Boston has a travel arrangement that is fairly imminent, so we would like to put him on first, then the panel of economists and then the panel of mayors, and then back to the regular order.

I turn to Mr. Blackwell for any opening remarks he might wish to make.

Mr. BLACKWELL. Thank you, Mr. Chairman. I want to commend you for the dispatch in which you arranged this first hearing the subcommittee has planned on the issue of infrastructure investment.

We begin these hearings at a time when President Clinton has yet to be sworn in, at a time when Congress is not in session. It is clear evidence we in the Congress following the most recent election have heard the mandate of the American people: Do something about the economy, get to work. I am pleased today to join you in that effort.

The first step in solving the problem is to identify and define. Critical to identifying and defining a problem is the process of asking the right questions, and that is why we are here.

We know the answers to our economic problems. Our task for today and the near future is to ask the right questions. The possible answers are easy and welcome to all of us: Produce jobs, reduce the deficit, hold inflation, keep interest rates low, generate

tax policies, become more globally competitive, cut the trade deficit, stimulate the economy and invest in our infrastructure.

But what are the questions? Those are more difficult. For example, should we ask questions about the nature and level of investment tax credit or should we ask questions about Federal grants for states? Should we ask business to create jobs or should we ask the Government to create jobs? Which of the highway and transportation programs work best as an economic stimulus, or should we ask which programs can create new jobs and stimulate the economy?

These hearings which we launch today are even more compelling and timely. In the end, we must make wise decisions. We can be aided by the guidance and recommendations we gather over the course of these hearings. If we ask the right questions, the answers will follow.

I want to be sure that any infrastructure investment program this Nation ultimately embraces includes all of America. In our zeal to spur investment, I hope we do not ignore minorities and the American workers who have stood long on unemployment lines. We should inject money into the economy in a manner that includes all Americans without relying solely on the good faith of businesses and employers.

We begin these hearings at a time when the economic indicators are favorable. The second half of 1992 produced the best news in the past three years. The inflation rate is steady and the dollar is strong against the Japanese yen and German mark.

However, unemployment has been unaffected. We have people living in the subways in the cities of America. We have people standing in soup lines in the cities of America. Lines of those out of work increase throughout every congressional district and across America. These are not merely numbers. These are men and women, the fabric of this country. These are Americans ready for answers.

We believe the President was given a mandate to put this country on the right course, to put the country back to work and compete in the global economy.

Mr. President, I commend you for having this hearing today. We have to get started right away.

Mr. WISE. I appreciate those remarks. Don't promote me, though.

Mr. BLACKWELL. Mr. Chairman.

Mr. WISE. I have enough trouble with the inauguration tickets.

Mr. BLACKWELL. I said those same things to the President.

Mr. WISE. I turn to Mr. Quinn for any opening remarks he may wish to make.

Mr. QUINN. Thank you, Mr. Chairman and Ms. Molinari. I want to thank you for moving quickly on this issue of infrastructure investment.

As a former local official in Western New York, I can tell you firsthand how important infrastructure investment is for our local communities. For me specifically in Western New York—I know Mayor Flynn will tell us the same things for his great city of Boston—if the new administration proposes a short term plan, it will be important for us to act quickly on projects that are now ready to move forward.

Speaking for the City of Buffalo and Western New York, I can tell you there are at least 10 projects ready to go in the next 60 days. There is an old adage that if you chop your own fire wood, it warms you twice. I believe public investments can work the same way. We can get our economy moving, create new jobs immediately and fuel long-term economic growth.

Today we will hear from a number of leading economists and local businessmen on the economy and its effect on the deficit.

Mr. Chairman, I sought membership on this committee because I believe it will be important in helping our cities and local communities. I look forward to working with all my new colleagues and senior Members on the committee and the new administration in addressing our country's infrastructure needs. I look forward to hearing the testimony today from our experts.

Thank you very much, Mr. Chairman.

Mr. WISE. Thank you for your remarks.

Mr. Nadler from New York.

Mr. NADLER. Thank you, Mr. Chairman.

First of all, let me join my colleagues in commending you and Chairman Mineta for holding this hearing to get us started on this project of increasing our capital investment and holding this hearing with dispatch.

I believe that only a strategy based on large-scale public investment can lift the economy out of its long-term systemic stagnation, if not decline. I believe that the economy in the last few years bears marked resemblance to that of the late 1930s in which you have long-term stagnation, the beginning perhaps of deflation, and only a similar strategy to what was followed, although not intentionally then, what lifted our economy out of that decline then was World War II, which from an economic point of view was a massive, massive capital investment, and I believe a similar strategy not for weapons but for productive investment is what should be our principal engine of recovery on a long-term basis.

I hope we will explore this question. And I agree with Mr. Blackwell, let's include all of America, and by that I mean not only population segments but all segments of the economy.

The ISTEA bill of 1991 had one glaring omission. There was nothing in it for the railroads. I hope that if we are going to have a large-scale investment program, that that omission will not be repeated.

Europe and Japan have over 90 percent of their railroads electrified the United States, about 4 percent.

There is plenty of work to be done on all of our infrastructure. I hope this is the beginning of our doing it for the benefit of our economy so that we can get moving again.

Mr. WISE. The gentleman from Arkansas, Mr. Hutchinson.

Mr. HUTCHINSON. Thank you, Mr. Chairman.

First of all I would like to commend you also for the timely manner in which you have called this hearing. A healthy, functioning infrastructure is vital to our economy's well-being and we certainly have heard a lot of discussion on the topic over the past year.

Our country is currently recovering from an economic downturn, however weak that might be. The latest indicators show a general upturn in many areas. However, a stimulus package can still pro-

vide a boost to our economy, especially if it is enacted in the near future. If we do not act in an expeditious manner, the infusion of Federal assistance may prove ineffective at best and at worst cause an undue burden on the Treasury.

Much of the construction and repair on the Nation's surface and infrastructure is provided in the ISTEA Act, which is user fee funded. However, I recognize that with so much of our infrastructure in deleterious condition, additional work remains to be done.

That is why I support the concept of an economic stimulus package. But I would be less than candid, Mr. Chairman, if I did not express my concern over the possibility of creating a package that substantially increases the deficit. We cannot sacrifice long-term goals for short-term fixes.

Mr. Chairman, I look forward to hearing from our distinguished panelists here today and to working with all of my colleagues on the committee to form a fiscally responsible economic stimulus package. Thank you.

Mr. WISE. I thank the gentleman.

I recognize the gentleman from Texas, Mr. Laughlin. We are delighted to have you join us today. He is quite an advocate for rural areas.

Mr. LAUGHLIN. Thank you, Mr. Chairman. Welcome to the committee. I have been here four years and it is the first time you have been back to the committee since you abandoned the committee to go to the Budget Committee.

Mr. WISE. I want you to know I fought the good fight for infrastructure on the Budget Committee.

Mr. LAUGHLIN. I came in honor of your return today. Seriously, I saw the schedule, and while I am not a Member of this subcommittee, I recognize the importance, as you have, and I certainly join with my friend, the gentleman from Pennsylvania, in his comments that Americans want to see America rebuilt.

I want to say that the other Members of the subcommittee and the witnesses here today, and as I look over the list, most of those are from big cities, and Mayor Flynn, you come from one of the historic cities of America. Unfortunately for the people I represent, you have got more Congressmen within your city than the people I represent have in our entire district. The district I represent is larger than your entire state.

And I made mention of that to point out, too often distinguished Americans come here and talk about the plight of the cities and fail to recognize there must be a balance in addressing the concerns of this country. And if we only fix the problems in Boston and Philadelphia and Los Angeles, we increase the problems for those cities if we ignore the rural areas.

To address that point very specifically, the only multi-lane highways in the 14th Congressional District of Texas are those that connect Houston to San Antonio, and I represent everything in between, and those that connect the State capital of my State in San Antonio, and I represent most of that area. And there are no four lanes from the Gulf of Mexico to the center of my State, and I represent everything between Galveston and Corpus Christi. That will give you an idea that since the days of the Republic of Texas, there

has not been widening or increasing of the roads, yet we have had a great influx of industrial America to the gulf region.

I make mention of that solely to stress to you and other witnesses here to strike a balance as we address the much needed infrastructure needs of this country.

Thank you very much, Mr. Chairman. I appreciate the opportunity to be with you today.

Mr. WISE. Delighted to have you join us. The gentleman from Florida, Mr. Mica.

Mr. MICA. Mr. Chairman, as a new Member of this subcommittee, I particularly want to thank you for the leadership that you and my distinguished colleague from New York, Susan Molinari, have shown in putting this hearing together this quickly. I can't do anything but commend you on your action.

Quite frankly, I read this morning's Washington Post, and the President-elect had said on June 23, 1992, "I will have the bills ready the day after I am inaugurated and send them to the Congress, and we will have a 100-day period which will be the most productive in modern history." I don't quite see that happening yet, and that is why I am particularly sincere in congratulating you and the leadership of this committee for moving forward today.

I also understand—and again, I am a new Member of the committee—that any legislation that we pass really needs to be out by April to have an impact on the infrastructure of the country this year. So again, I can't do anything but commend you for your action today, for taking the leadership.

When I campaigned and last week talking to people in the district, their hope is for jobs and for building the infrastructure of America. So again, I thank you for the leadership you have shown the country today.

Mr. WISE. Thank you.

I recognize the gentleman from Minnesota, no stranger to public works, or certainly this committee, Mr. Oberstar.

Mr. OBERSTAR. Thank you, Mr. Chairman.

It is a pleasure to be here, again, on the Economic Development Subcommittee: The right time, the right place, and the right issue. There is nothing this country needs more than new jobs. And this is the committee that has the insight, the understanding, and the tools to do that for this country.

All this talk about what we are going to do with the tax structure and dealing with the budget deficit that we have been hearing for weeks pales in comparison to an honest day's work and an honest day's pay, and the jobs program success we have had with EDA and the Appalachian Regional Commission and the regional area economic development teams and the professionals throughout this country who had a remarkable success story. We have documented it time and again. This legislation creating new, workable economic programs has passed the House at least four times by votes of four to one, solid bipartisan basis.

There is no reason we can't bring such legislation up again, get it to the Floor and signed by the President. I urge we get on with the job and do it.

Thank you, Mr. Chairman.

Mr. WISE. Thank you, Mr. Oberstar.

I recognize the gentleman from New Jersey, Mr. Franks.

Mr. FRANKS. Mr. Chairman, I want to thank you and Ms. Molinari for demonstrating the insight in convening this hearing so early in this new Congress.

I come from the State of New Jersey which has truly been devastated by the national recession. We have had an unemployment rate hovering between 8 and 9 percent over the past 14 months. I can't think of a more appropriate committee to be serving on in this Congress, because while we all have to be mindful of the dangers of fueling inflation and such, this is the committee I believe can build a foundation that can support long-term economic growth and prosperity for the people of our Nation.

For that reason, Mr. Chairman, it is a delight to be able to be here and I look forward to hearing from the witnesses.

Mr. WISE. Thank you.

The gentleman from Georgia, Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman. I too want to commend the Chairman and the Ranking Member for undertaking this hearing today.

Infrastructure improvements continue to be discussed as the cornerstone of an economic package, as has already been pointed out here this morning. And I certainly believe this is a very wise use of Federal dollars. The State of Georgia has many needs, especially given the fact that the summer Olympics will be coming to the Atlanta area in 1996.

However, given the fact that the major challenge for this Congress is the Federal deficit, and one of the greatest threats to the people of this Nation is the national debt, we as Members of Congress must come to grips with those two facts.

I want to be sure that our strategy encompasses only those projects which are truly necessary and that we give thorough consideration to ways in which we can encourage states and the private sector to work with us in partnership to fulfill those projects and to address the deficit.

Thank you again, Mr. Chairman. I look forward to hearing from the witnesses and working with my colleagues.

Mr. WISE. I thank the gentleman.

I would like to remark to all witnesses that will be appearing before the committee that your written statements in their entirety will be made a part of the record. So please feel free to summarize in any way that you wish. Perhaps there may be some particular point you would like to address.

For the opening panel, we are delighted to have with us today as our opening witness the Mayor of Boston, no stranger to Congress, who has been very active in making his city's needs known to the Congress. We welcome you and the remarks you are going to make.

TESTIMONY OF HON. RAYMOND L. FLYNN, MAYOR OF BOSTON, MA

Mayor FLYNN. Thank you, Chairman, and Members of the committee. We are honored that we can be the opening voice of the new Congress here at what I would describe as the continued fight for economic justice in the United States.

I would say that our central theme here as we move down the path as it relates to our economy is to turn unemployment checks into paychecks, so we get people off of welfare, and out of the unemployment lines, and making them productive, viable Americans, taxpayers, so that they can contribute to moving the economy forward.

You will notice that I have a number of materials with me. As you would know and certainly Chairman Mineta would know, I have been carrying these books around with me for well over a year. I almost have a hernia here. I have had them here in Congress for over a year. I took them to some 78 communities across the United States as national co-chair of the Clinton for President campaign. And I want to assure the committee that what is contained in here, while they were coming from a President of the U.S. Conference of Mayors who happened to be a Democrat, it was the sentiment and the clear feeling of people all across America, from Wheeling, West Virginia, to Butte, Montana, to Staten Island, to Philadelphia, to California, the smallest areas as well as the largest cities.

So the point of view we are representing here today, I believe, is the true sentiment of how the people of this country feel. They want the economy to move forward. They want the dignity and respect that comes with a job.

We will have a number of debates in the Congress of the United States as to key social programs, and we will be able to present those social programs hopefully in a very professional and methodical way. But in the final analysis, the most important social program in America today is a job. And that is what people really are looking for.

So I offer these books for the record. What they are is a survey of some 504 communities across the United States, which we took, by the way, at the request of over a year ago, of Jim Sasser and Paul Sarbanes on the Senate side. And they said, as an example—and this is over a year ago when I was testifying for the mayors. They said, "Mayor Flynn, what would happen if the dollars were there to jump start the economy, put people back to work, deal with our infrastructure; could you get these projects in the ground early?" I think that is still a very central issue. Would it have an effect on the recession immediately?

And the answer was that nationally we did not have a record of all the jobs or all the projects that have been suspended for various economic reasons at the local level. What we did then was we went back out and did a survey of all these communities. We presented them back to the Congress again. Tragically, Mr. Darman—who was speaking immediately after me—Mr. Darman said that the end of the recession is right around the corner, we don't need this kind of economic stimulus.

And here we are. We are no better off today from an economic point of view than we were 15 months ago when we first moved these books throughout the Congress and throughout the country. The difference is now that this has strong bipartisan support. It was a central theme of the national campaign. As somebody who probably campaigned as much as anybody in this country with the

exception of the President and the Vice President themselves, I can assure you that this was the most central issue.

When the President-elect started to focus on the issue of jobs, a specific economic game plan to put people back to work, he was clearly identified as a person who had a specific economic goal, a game plan, and you can compare the presentation and the introduction of the President-elect's support for these kind of projects and compare them to the polls, and you will see a remarkable change of people seeing in Mr. Clinton somebody who had a vision of where this country ought to go.

There are a couple of points I would like to make—and I know we have a very distinguished panel, in fact an economists' panel but you made reference to the chart over there and the issue raised by the gentleman from Texas. I hope we are not putting ourselves in a position where the big cities are pitted against the small rural areas, because that would be tragic, because that is not the case here at all.

You know, finally, I thought it was a bit ironic that the cities of America who have been ignored for the last 12 years now all of a sudden were coming down here and we are somehow the bad guy being pitted against the rural areas. That is not the case. We see ourselves in the same kind of situation. Again, this represents small areas as well as big cities. From New York City to small communities like Butte, Montana, we are seeing that the major erosion of the infrastructure has had a devastating effect on the economy.

The issue of the jobless rate, we have done a survey, a survey has been done, we have been a part of it, and although the unemployment statistics in the areas—unemployment statistics talk about 7.3 percent, for the 30 top cities in America, the actual unemployment rate is 14.9 percent. When you factor in discouraged workers, part-time workers that are looking for jobs, plus the official unemployment rate, you will see that this economy has had an even profounder effect on the work force here in America.

So we will offer places of the top cities that while areas like New York will have—Detroit will have an unemployment rate of 13 percent, in fact it is 23.4. And New York will have an official of 11 but it is 19.8 percent. And Boston, 7.2 percent, but in fact 13 percent.

So we want to make sure that that is clear, because there are a lot of people who have just walked away from the economy, figure that there is no solution, they have given up hope. I saw that, Mr. Chairman, in your community, in West Virginia, and I saw it all across the country. People have just given up, that there is no hope out there.

So I think the unemployment statistics and the slight improvements in the economy are somewhat of an inaccurate mirror of what is actually taking place in America today.

I would acknowledge there is tremendous hope and there is tremendous dependence of people thinking that finally America's policy is back on the right track. And you have a tremendous responsibility and an opportunity to really do something to send that message to the people of this country that the Government is back on their side.

I think if I had to summarize all the speeches and all the testimony that I heard from people from all over the United States, it would be the simple phrase that I heard from playing professional basketball to growing up in boys and girls clubs. It would be, people are looking for somebody on their side. They are looking for a President and a Congress who are going to at least respect the dignity of a person who is out of work and who is seeking a job, looking for the respect of that job.

So you have a tremendous opportunity to fast-track these jobs. These are projects that are in the pipeline. They have been on line, but they have been suspended for various limitations at the local level.

I know in Boston alone—I sent this to the Chief of Staff of the President-elect—these are projects that could take place almost immediately. I have identified in Boston $92.7 million, which includes $16 million for roadway improvements, $21 million for various facilities, $6 million for parks, $6 million for neighborhood development, $28 million for water and sewer projects, $15 million for targeted economic development initiatives.

I am not going to go on, but I would like to give you one experience of why infrastructure improvements are so critical, and this is a personal experience I have had in Boston. We have one of the largest pharmaceutical firms in the world. It is called Genzyme. Genzyme was thinking of locating their firm, possibly outside the United States. I invited them to come to Boston. I took them on a tour of our city.

We have invested a lot of money in infrastructure in Boston: It has been one of my highest priorities. The sewers, the roads, the streets, all the water lines, all those improvements that are very conducive and inviting to prospective businesses. While the decision made to go to Boston by Genzyme was based on Boston's infrastructure, what that means is literally hundreds of new jobs. It means hundreds of new families working, pumping money into the economy, stabilizing communities and stabilizing families. And that is what these cities, that is what the communities of the United States need. Talk about stabilizing neighborhoods, give folks the dignity and respect of jobs, and you will see an entirely different kind of feeling here in America.

Infrastructure is critical. We are talking about deficit reduction. If we are talking about stimulating our economy, the gentleman asked the question. Well, I have got the answer. The answer is putting people back to work by giving them the respect and the dignity that comes with the job. Not a make-work job. These are private sector jobs. This project that I undertook, that the mayors undertook, could put a million Americans back to work almost immediately. Almost immediately.

So we look forward to working with this committee and making sure that the issue of our economy and the deficit and the dignity and the respect of a job is the number one issue in America.

Again, we think it would be a mistake to allow this to be a city versus the rural area. It would be an even further mistake to suggest that this is a Democratic policy versus a Republican policy. That is not the case at all. It is not the case. This crisis that we are seeing in America is an American crisis. It is not Democrat, it

is not Republican, it is not liberal, conservative. It is an American crisis and it is a crisis of the spirit.

And that is what we need. Put our people back to work, make people feel good about themselves, make America feel proud of its government once again.

Thank you, Mr. Chairman. I am proud we were able to be the first voice of this new Congress, because this voice in my opinion, in the opinion of many, many others, is the most important message that could be delivered on behalf of the people of the United States to our government here in Washington.

Thank you.

Mr. WISE. Thank you, Mayor Flynn, for your opening remarks.

I recognize, and we are delighted to have join us as well, a Member of the full Public Works Committee, the gentleman from California, Mr. Tucker. I am glad to have you with us.

I would ask Members of the committee if we could engage in a semi-flexible five-minute rule. If each of us could keep our questions and responses to five minutes to guarantee each of us has a chance to get in some questions and accommodate the witnesses.

I would just say to Chairman Mineta, I appreciate the opportunity to be the Chair of this. My previous subcommittee that I chaired for four years had 10 Members, and you have given me the privilege of chairing a committee that is larger than the State of West Virginia Senate. Now I can see why the President of the Senate was sometimes trying to limit debate a little.

At any rate, to the Mayor, in the book that you have there, which could also be—if you have been carrying it for a year, I would describe it as heavy hands. It looks like an excellent cardiovascular work-out.

In that book, is there any estimate of how many of those projects could actually have dirt flying in 90 days?

Mayor FLYNN. Good question. These projects have already received—the projects we are talking about have already received the various approvals at the local level, whether they be zoning approvals, environmental approvals. These are projects—when I say—I termed the phrase here, never knowing it would really stick, but to give it a name a year and a half ago, I called it ready to go, and they are in fact projects ready to go. This isn't something that we would have to take back to our respective communities and go through this arduous process and it would take a long period of time. Some as immediately as 30 days you could have shovels in the ground, 60 days, 90 days. But by and large, when I say ready to go, they are in fact projects ready to go.

And we did this, by the way, because the question that you asked was the very question that was asked in the Senate back in February, and what they said was—and Mr. Darman was sitting right here alongside me—but these projects are going to have no effect whatsoever on the economy immediately. And that is why it behooved us to convince everybody that these projects could be put on a timetable to get moving right away.

So there are a million jobs that could be generated immediately. People could be put back to work within 60 to 90 days.

Mr. WISE. Historically an argument against an approach such as this is that the cost per job created is extremely expensive. Would you care to comment on that?

Mayor FLYNN. Well, one of our experiences is that for every one dollar that is invested by the Government in stimulating the economy in infrastructure, jump-starting the economy, there are about four private dollars that are invested. Now when we fix up our roads, our bridges, our sewer lines to make it conducive for a major company, business, to locate in that particular area, the economic benefits of that are far greater than any initial investment that Government made. This is a major economic stimulus that circulates money in more ways than people can even measure.

It goes from the corner grocery store for a quart of milk and a loaf of bread, to investment in the downtown business district. As I say, it is so much better for people to have money in their pocket and the respect and dignity of a job not only for how it makes them feel, but for the overall economy in that particular area. We have found that the money circulates in this community because these kind of jobs stimulate the neighborhood economy, and neighborhood activity in many, many respects.

Mr. WISE. Isn't there also a significance that in addition to the job which was created, and I can testify as to how important it is to have a job. Certainly it has been a major problem in our State on a cyclical basis, but isn't the significance as well that we are not talking about something which was basically a consumption activity that after that job is completed, there is something in place that you use or the city uses time after time, after time, whether it is a water system, a sewer system or whatever? It is a capital investment that has a life beyond the job that was created to build it.

Mayor FLYNN. There is no question about it. It is the statement that you pay now or you pay later, and you could all give experiences and examples of in your community. The Chicago one is the one that brought it to everybody's attention, but there are cases where we have seen water pipes, and we have seen roads that have actually collapsed, and it has literally cost millions of dollars in flooding and damage and repairs that, had there been some basic maintenance in those areas, these major problems could have been avoided. And we have these kind of problems all over this country.

I mean, it is shocking for somebody like me who never really understood how serious the problem of infrastructure really is, as it is in Atlanta, as the gentleman talked about. Maynard Jackson and I went through the subway stations down there, and the structure of that problem and all across this country is just shocking. And it is not make-work jobs—these are projects that this country needs to see addressed because the crumbling infrastructure represents a crumbling country, and these are projects that are critical to the economic health and stability of our country.

Mr. WISE. Thank you very much, Mayor Flynn. Ms. Molinari.

Ms. MOLINARI. Thank you. Mayor Flynn, going back to the conference of Mayors package. It still remains a tremendous concern to all of us that despite the fact that these projects are on line and permitting in some cases have been done, to a very large extent design remains outstanding. Design is usually one of the most time-consuming aspects of a capital project, at least in New York City

it is. How do we really guarantee the American people that at least the design phase will be accelerated so that we can get to the actual construction as soon as possible?

Mayor FLYNN. I think there has been some anticipation last year when people thought that perhaps something like this was going to happen. I think everybody went really to the work table and started to anticipate this, so I think you will find that, again, there is an immediate short-term jolt, boost to the economy can take place, but Congresswoman, the other point is the psychological boost this would give to this country. I mean, today's hearing is very important. You are sending a message that this is going to be the most important issue.

If the first piece of legislation that came out of this Congress was putting Americans back to work, I think that that would send such a ripple effect economically, morale-wise, building people's feelings of goodwill, I think it would just be tremendous. So you talk about consumer confidence, I will tell you, American confidence would be boosted significantly if they knew that the first order of business of our Congress was putting America back to work.

Ms. MOLINARI. Oh, I have no doubt, and I appreciate those comments, especially coming from a mayor that is about, if this package is to be passed, to assume a great responsibility and an additional workload also. Nonetheless, I would like to see this committee explore and maybe we will have a need to call you back to assist us, how we can guarantee the acceleration of public projects. I think we are going to find that the majority of municipal and State officials are going to want to cooperate, but it is still a concern.

Another concern that I have, and I think it is shared by a lot of my colleagues, is that the Federal Government monies are not used to replace State and local funds. We want all levels of Government investing in our infrastructure and fear that a city, albeit tremendously strapped financially, may use this as an opportunity to pull back their funds. How do we do that legislatively?

Mayor FLYNN. I will tell you, I think that is a very important question that has to be asked and answered not only on this particular issue but on many, many other issues as well.

Ms. MOLINARI. Sure.

Mayor FLYNN. The homeless issue. Homeless is not a New York City or an urban problem. It is not a State problem alone. It is not a Federal problem alone. It is an American problem, and everybody has a role to play, and the same way with rebuilding our economy. Everybody has a role to play. We can't just go around the country and try to develop "make work." This isn't WPA. This isn't CCC. This isn't some sort of New Deal program that just puts everybody back on the payroll painting fences or whatever.

These are projects. These are jobs that are critical to the economic health of our country, and so there is a role for all of us to play. I think you asked the right question, that local communities have to play a role. They have to bring their money to the table as well as the State and the Federal Government, and I think if you have that level—and I know it has been said before, but it will be stated here again, and that is partnership. The American Government and the American people have to insist that their Govern-

ment engage in a partnership because that is really what is critical.

The Federal Government should not be required to bail out the cities by themselves. It is, in fact, a partnership with Federal, State, local as well as, by the way, the business community. I don't believe that the business community has played as active a role in stimulating the economy and making this country strong competitively. We are talking here about fast-tracking jobs, and at the same time two days before Christmas I lost two major firms in Roxbury—Stride Rite and Digital. They were going to another State because they have got a better deal, a better tax deal, and then what will happen? They will leave that State after they dry up all the goodies from that State, and then they will take those jobs to Mexico or some other place. So I would also hope that we look at some of the tax laws in this country so we don't create economic disincentives for jobs in our cities.

That is why, you know, not to belabor it, but this committee should be congratulated on the ISTEA legislation, on $151 billion, because that was the first urban transportation bill, as far as I know, in decades in this country. What we had before, were policies that moved people from the cities to the suburbs and also jobs from the cities to the suburbs. The ISTEA proposal does something very, very different. It moves people to jobs and jobs to people. We are now circumferentially able to move people around our communities, not just build these megahighways out of our cities that not only take people, but take jobs out of our cities as well. So there has to be balanced planning. That is what I would say, balanced responsibility all across the current.

Ms. MOLINARI. I appreciate that because I do see this as an opportunity to not only reinvest in America, but to also use this money as some kind of financial leverage to increase all levels of productivity. I am going to ask you, perhaps, an unfair question, but I think it is something that we all need to know. I am going to ask you now to put on your hat as the Vice Chairman of the Clinton campaign.

The President-elect has not had an opportunity to adequately respond to a lot of the changes in the economic forecast relative to the increase in the deficit. I was wondering if you could give this committee any kind of indication as to whether the President-elect has changed his position on this economic stimulus package.

Mayor FLYNN. I don't speak for the President-elect, although I did talk to him yesterday for a pretty good conversation along with the Vice President-elect. I will tell you that the economy, putting people back to work, was the message that we talked about, and we just compared notes on the message that we both heard, in communities all across this country, so I think you are going to see that the thinking here of this committee around the economy, the issue of economic justice, an issue that we haven't heard too much recently in this country, I think it is going to be one of the major messages that Mr. Clinton is going to send to the people of this country, economic justice.

Ms. MOLINARI. I think it is important that we had you say that today.

I have one more quick question, Mr. Chairman, and I think I know the answer to it, but I would like to get it on record. In New York, in particularly one of the last groups that is going to testify here, the New York Building Congress has put forth a suggestion that while we are reinvigorating this economy that we redefine the term "infrastructure" to include schools, public hospitals, public institutions. Do you have any feelings on that? Has the National League of Cities discussed that?

Mayor FLYNN. Well, certainly when people are looking to locate a business in a particular community, one of the major things that they look at is what is the situation as it relates to the school system, and to take a peek at a school that is crumbling, that the roof is leaking, that the heating system is inadequate, people are going to make decisions that this is not the place where I want to invest my millions of dollars in a new business, so those are all——

Ms. MOLINARI. So while we are looking at this——

Mayor FLYNN [continuing]. I would also add, Congresswoman, insofar as you mentioned, in New York I have to acknowledge here for the record, I have a personal interest in the infrastructure of New York improving, because when I start on my New York City marathon from Staten Island, I always step into those potholes there.

Ms. MOLINARI. Well, we certainly want to make sure that doesn't happen next year, Mayor. Thank you. Thank you, Mr. Chairman.

Mr. WISE. Thank you. The gentleman from Pennsylvania, Mr. Blackwell.

Mr. BLACKWELL. Thank you, Mr. Chairman.

Mayor Flynn, I certainly agree with everything you have said this morning regarding jobs. I think it is the number one issue in this country. I think that to arrive at the proper conclusion regarding jobs we are going to have to look at a total picture of what the word "job" means.

I work with the homeless. As you say, it is an American problem, it is not a Philadelphia problem or a Boston problem. It is an American problem. I work with the homeless every weekend in Philadelphia, whenever I have a chance. I find that a lot of people are sleeping in subways who have jobs. They have jobs, but the jobs are not paying them enough to allow them to live a decent life-style.

In other words, we have gone from an economy where we made a decent wage down to minimum wage, but the prices are still here, so with the prices here and the wages here, there is no way that we can do anything to enhance life-styles of people who are homeless. I have talked to people who last year were working. They worked for contractors. I have plumbers. I have electricians and they are just not able to make it on minimum wages, so how do you feel about that? Have you ever thought—and I know there is a lot of debate about cost factors regarding—you go from high wages to minimum wage and no benefits or where we had benefits and high wages——

Mayor FLYNN. Very pertinent question, Congressman. That is why we factored, when we talked about the economy, the debate I am sure that you folks will hear, whether or not this is going to have an immediate effect on the economy and really isn't the econ-

omy starting to move in the right direction anyway? This is the same argument I heard from Mr. Darman over a year ago, and I think that Mr. Darman, in all due respect, was wrong at that time. The country should have jump-started the economy and sent the right message out there, but that is one of the reasons why we are just offering these new, revised, factual, accurate unemployment statistics that don't come from the Department of Labor, but don't come from the Department of Commerce, but they come from the people of the country, which says that there are a lot of discouraged workers. There are a lot of people working part-time that are looking for full-time work as well.

These type of projects or these type of jobs that we are talking about, Mr. Congressman, are not—you know, I don't want to put down anybody that has a low-paying service job because those people are good, hard-working, decent people, and they are doing the best they can, but these jobs are jobs that will put some food on the table for the kids. That is what these jobs are. These aren't your low wage jobs. These are your building trades, your construction industry, people who will be able to pay the bills at home.

You are absolutely right on another point, and that is one of my other hats that I had for, I guess, seven years as the Chairman of the U.S. Conference of Mayors Committee on Homelessness, Hunger, and Poverty, and we do a national survey. I do one in Boston where we actually travel the streets and neighborhoods of Boston to identify who is, who are the homeless, and we find that a major percentage of them were people who were living in shelters that were working, but because of their wages they couldn't afford the high cost of living, particularly the high cost of housing, so you are right. People could be working and still not be able to live a decent quality of life or support even a family on those wages, and that is why you see such a—almost an incentive for family destabilization, because of low wages.

These type of projects really, I think, bring about fairness in wages for the type of people that you are concerned about.

Mr. BLACKWELL. I think it was important to point that out. Another problem we have is that we are not dealing with the total cause of why we are having these problems. When you say jump-start the economy, it is like jump-starting an old car. The fellow jump-starts it and pulls away and the car stalls again. We want to make sure that doesn't happen.

The one problem that I have discovered since being a Congressman is that the foreign governments subsidize their businesses to the extent that American business people cannot compete with foreign governments. That is why we have most of our jobs going to Japan and Taiwan and Korea, wherever. What can we do? As mayor of a large city, you have a lot of experience. What can we do to enhance the ability of American business people to compete with foreign governments?

To give the perfect example, we were subsidizing shipbuilding in foreign shipyards. There is no way that American shipbuilders can compete with that if the foreign government is subsidizing to the extent that all the jobs are going over there. Now, when we talk about subsidizing American businesses, some people frown on that. I call it competitive assistance when somebody is doing something

that I consider illegal to take my work—what would you do to correct that?

Mayor FLYNN. This is another—I like to deal with practical experiences that I have had. Two days before Christmas, employees in the Digital plant in Roxbury—you might have heard of the area. It is an area of a lot of hard-working, many needy families, but doing a lot to stabilize their community. Over 400 of them received pink slips. Now, this isn't some major threat. This wasn't the red menace. This was pink slips that they received, and it was determined that Digital had a better deal somewhere else. Try to follow this with me for a second.

It was city land that brought Digital to this location. They got about $7 million. They got $600,000 for land clearance, $3 million for an industrial revenue bond, they don't pay taxes. A special tax arrangement was made by the City of Boston. I was not the mayor at the time, but a special tax arrangement was made by the City of Boston. It means about $7 million in pocket for this company. They decided two days before Christmas, to close this plant. Most of the workers are all minority folks. Mr. Brown is very familiar with them because Mr. Brown used to live there, Ron Brown.

They had taken their job to another State. They got a better deal. I would think they would follow the same place, same trend as many businesses. They would then take advantage of tax laws by our Congress and our President and go move the jobs elsewhere. I think you have to deal with that issue. I think that is a very serious issue. Pitting cities against States, States against each other, you know, look, we have to provide services, police and fire and health care and education. Some business can pick up and take those jobs and get a better deal somewhere else. It erodes our tax base at the local level. We lose hundreds and hundreds of jobs, and we have some major corporations lining their pockets with big bucks at our expense.

Mr. BLACKWELL. Mr. Mayor, I don't mind losing jobs to other cities if they outbid us. My problem is losing work to foreign countries because it is being subsidized—because the businesses are being subsidized by foreign governments, putting Americans out of work. That is a basic problem.

Mayor FLYNN. Congressman, can I just challenge you on one little point? You don't care whether we lose it to another city.

Mr. BLACKWELL. I don't mean it literally.

Mayor FLYNN. Focus on that one because that is a big issue. That is a big issue. You have to be concerned about cities losing jobs to other cities.

Mr. BLACKWELL. I agree with that.

Mayor FLYNN. Because that is a drain of the Federal Treasury. That is a drain of tax dollars that are going in wages from one pocket into the hands of corporations of America. That is a sizable difference.

Mr. BLACKWELL. I take the statement back.

Mayor FLYNN. But not enough focus is on that.

Mr. WISE. Let the record reflect, we need to move on——

Mr. BLACKWELL. Can I ask one more?

Mr. WISE. If you can make it quick.

Mr. BLACKWELL. Thank you. One problem we experience, and this is like talking about the American flag, mothers and apple pie. Anything we do to jump-start this economy, we need the cooperation of the Federal Reserve System, the Treasury Department, because if we are not going to get the proper cooperation, we need to take steps to create jobs in this economy and give investments to business people who want to do business here in this country. If the Federal Reserve System comes up with policies that will not allow us to make a profit or to completely throw the economy out of whack—this has happened so many times in this country— then I think we are wasting our time and the time of the American people. How do you feel about that?

Have you experienced that or do you feel that we have a problem there?

Mayor FLYNN. Again, I think that there is so many issues that are behind the scenes that the average American people aren't aware of—the cards are stacked against average working families who depend on us in Government to establish a level playing field. I don't think there is a level playing field in this country as it relates to workers versus corporations in losing jobs to foreign countries. I will tell you, I think that it is a major issue.

I heard Mr. Perot stimulate audiences in communities all across the country on that very issue. I was in Michigan at the national campaign, and I heard that kind of issue of losing jobs to foreign countries repeatedly. It was the number one issue. I heard it in Pennsylvania, communities all across this country, so I think we want to grow the economy. I think that is clear, but I think we want to put people first, put Americans first as well.

Mr. BLACKWELL. Thank you, Mr. Mayor. I agree with that, but I think it is time for us to talk about the cause, the total picture of why we are having these problems. If we do that, then we are going to restore the economy to where it should be and jobs will be permanent and not temporary. Thank you.

Mr. WISE. The gentleman's time has expired. The gentleman from Pennsylvania, Mr. Shuster.

Mr. SHUSTER. Thank you, Mr. Chairman. Mr. Mayor, good to see you again. I appreciate your testimony. I am one of those who wants to be persuaded that we can indeed get these jobs on line quickly. The reason I want to be persuaded is because I am going to have to persuade many of my colleagues that that is the case, and I think what you have there is very valuable to us, and I have asked our staff to make sure we get copies of that and for us to vet it as critically as we possible can because that is the kind of challenge we are going to have.

For example, the Emergency Jobs Act of 1983, this is a GAO report. This is not a Republican administration report. It is an arm of the Congress, GAO, Emergency Jobs Act of 1983, funds spent slowly; few jobs were created. I am told that only 34 percent of the funds were spent to create jobs in the first 15 months of this bill, which this committee supported and passed, and therefore this is the kind of challenge we are going to get when we go to the Floor with legislation. So I know that we are going to be very tough in terms of vetting that information, and I know you respect that and appreciate it because we have got to do it.

Mayor FLYNN. Mr. Congressman, I anticipated that very question, and I knew it was going to come from you because I know how tough you are when witnesses go before the committee. That is what this Boston proposal specifically does. If you don't mind me saying, I am one step ahead of you.

Mr. SHUSTER. Wonderful. I sense that and believe it and I very much appreciate it.

Mayor FLYNN. I think there are projects like that all over this country. I think it is going to be a major challenge for this Congress and the new Clinton administration to put these jobs on line immediately and hold the local communities' feet to the fire.

Mr. SHUSTER. I also think, in fact, in a meeting we had earlier this morning it was pointed out that while we certainly must focus on the deficit, the realities around this town and this Congress are that when we go to the Floor and when the President sends us a deficit reduction package, it is going to be a very painful package. We are going to have to have at least some sweetener in that painful package, and the best sweetener we can have is a solid infrastructure program, so it is my hope that we will be able to come together and support it in that fashion.

One final point. I have been the author of the buy-American legislation on transportation in the past. It seems to me that in an infrastructure package like this, our buy-American standards should be much higher. It varies, 50, 60, 70 percent. Perhaps it is not unreasonable to say it should be 100 percent with some kind of a clause that says if something doesn't exist in the United States, then perhaps there can be a waiver, but what is your feeling about that?

Mayor FLYNN. Well, this Democrat agrees with this Republican in that area as well, and I hope that whatever very little influence that we can provide together, we can convince this Government that let's take care of our own people first.

Mr. SHUSTER. Thank you. Mr. Chairman, I think it is important that we raise the standard on buy American for this kind of legislation. Thank you very much.

Mr. WISE. Good point. The gentleman from California, Mr. Mineta.

The CHAIR. Thank you very much, Mr. Chairman. Mr. Mayor, I apologize for having had to leave during your testimony, but in reviewing it, you referred to, and I quote, "the so-called end of the recession." There has been a lot of discussion about as to whether or not there is an end to the recession. It seems to me from a purely technical definition of what we know, of what we think to be the economic indicators that say, yes, something has come to an end, technically we probably have had the "end of the recession", but it seems to me that even looking at the figures that came out last Friday, 64,000 new jobs created in the last quarter. Now that, to me, is no growth in an economy as large as ours, and so today after 22 months of quote "so-called recovery" unquote, we have 200,000 fewer jobs in the economy today than we did at the end of the recession. That is one and a quarter million fewer jobs than we had at the beginning of the recession. Under these circumstances can we afford not to take action to create some form of stronger growth,

and what would be the effects in your area if we did not take some action to invest in the growth of the economy?

Mayor FLYNN. I think the sound of steel going in the ground would be the best boost to the overall feeling that the country is on the right track. I don't hear that sound all across this country. I pointed out that while the official unemployment statistics are 7.3 percent, I have identified that in 30 of the largest cities it is actually 14.9 percent, because when you factor in the discouraged workers or those people who have given up on the system, who don't believe that they are ever going to find a job, and on the other hand part-time workers who are also looking for full-time jobs, to be honest with you, Mr. Chairman, I don't see any evidence of the economy on the rebound. I don't see that.

Now, you know, you will have a distinguished group of economists who will be coming on immediately after me, and they will be able to provide certain statistical data, making this point more professionally than I could. I guess what my experience is is just listening to people in neighborhoods of Boston and in this national campaign the opportunity to hear people across the country, and I don't hear anybody saying that the economy is making a comeback.

As a matter of fact, I hear a lot of people recently, particularly since the election, saying that finally we are back on the right track. I guess the evidence of that is that we have had an election and we have new faces, but the evidence from a statistical economic point of view, I don't see it. I don't see it. I think people want to believe again, but I don't believe they really—I don't think the evidence is clearly there. As a matter of fact, I would say this: That if it were as important to pass this a year ago, these infrastructure ready-to-go projects, if it were important to pass them a year ago, I would say it is even more important to pass them now because of the new euphoria, the euphoria of new leadership and a specific message that you could provide as Chairman of this full committee in terms of the economy being the number one issue. I think that would be the first tangible evidence, sign that the Government is focusing on this critical, number one issue and that people then could really believe that the country is making a comeback, not on what some people from the academic community show on these charts over there.

These charts don't help my people in Boston who are unemployed. They prove nothing. Those charts over there are the Department of Commerce or DOL, Department of Labor saying that, you know, the economy is starting to move in the right direction, when all these people are unemployed and they have no money to pay their bills. That is not very reassuring. I think passage of this type of legislation would finally send the right message that America is on the road to recovery and that recovery is a job and the respect that a job brings.

The CHAIR. I think you are absolutely right. When I had a conversation with the President-elect, I was saying that—if I could paraphrase Yogi Berra—the economy, despite all the leading economic indicators and what they indicate, I said the economy hasn't turned around. In fact, we really have to wait until we see it, in fact, having turned around.

Mayor FLYNN. Right, it ain't over until it is over.

The CHAIR. If I could impose on the good Chairman's time here, you indicated, and I would like to quote: "not some make-work program to pad government payrolls, but a program that will rebuild the American economy", unquote. I think this is a message that all of us want to talk about because I think if we use public sector dollars to leverage the private sector, what we are really doing is multiplying the impact of what the public dollars are doing. I assume that this is what you would see happening across the country.

Mayor FLYNN. That is correct, exactly.

The CHAIR. If we are able to do this.

Mayor FLYNN. Yes, that is exactly what it is. Again, these are not make-work jobs, these are jobs in the private sector that have been shelved, that have been put on hold for various reasons at the local level, and if the Federal Government and the State government and the local government, the business community, all pool their resources and their energy, as limited as they are, I think you can get the biggest bang for the buck by putting people back to work, getting people off unemployment, giving them paychecks.

The CHAIR. You know, in your leadership role as President of the U.S. Conference of Mayors and other capacities, is there a rule of thumb that can be used to show what the leveraging impact might be: a dollar spent by the public sector, and how that leverages on the private sector?

Mayor FLYNN. In many experiences, it is about one dollar for about four. That is rule of thumb to some of us. I am sure other people have other experiences. That generally has been mine because that has always been the central question.

The CHAIR. Thank you again very, very much, Mr. Mayor, for your leadership over a long period of time.

Mr. WISE. Thank you, Mr. Chairman.

Recognize the gentleman from New York, Mr. Quinn.

Mr. QUINN. Thank you, Mr. Chairman.

Not a question, just an observation.

Like you, Mr. Mayor, I come from local government. Talk about new faces in a national administration, I am one of those 110 new freshmen that were elected from all across this country.

Local government is not looking for a handout. This needs to be a partnership with local, State, and county governments and the Federal Government working together. Coming from local government, I also know that there are some realities we must recognize.

A Federal grant application we used to say in on the local level, would be sent to the "black hole" in Washington. Local government would never see the funds for a long period of time.

I want to urge all of us and my colleagues here that we expedite and ensure this is a real working partnership. The new administration will be inaugurated next week, and we need to be able to strike that partnership. Please convey this message to your colleagues and the Conference of Mayors; and send good tidings from my Mayor in Buffalo, Jim Griffin, who is a friend of yours, that we all work together in a bipartisan fashion to send the President the same message. The Chairman spoke to the President this morning, it is essential we all send him the same message on behalf of the people in this country, infrastructure investment is vital to our cities and the economy.

I thank you again for your testimony this morning.

Mayor FLYNN. Thank you, Congressman.

Mr. WISE. Thank you. Mr. Nadler.

Mr. NADLER. Thank you. I, too, will just make a brief statement on commenting on some of the Mayor's statements and some other comments.

I simply want to observe that from my point of view, while it is important to get an economic stimulus into the ground early, the real problem we face is a long-term secular decline in living standards because of a long-term stagnation in investment and infrastructure and in research and investment in the country, and I am much more concerned about a long-term, large-scale investment strategy and policy so that we can get the economy moving in the long-term because we are dealing with a long-term stagnation and not particularly a cyclical decline.

Thank you.

Mr. WISE. Mr. Hutchinson.

Mr. HUTCHINSON. Well, I have one very brief question.

First of all, let me say how much I appreciate your testimony and your contribution today. I want to go back to a subject that came up earlier about the idea of redefining and broadening the definition of infrastructure to include schools and public buildings and so forth, and I got the impression from what you said at that time that you thought that might not be a bad idea. My concern would be that we might create a virtual "black hole" for Federal spending if you did something like that, particularly at a time when Federal resources are so scarce for the more basic and traditional definition of what infrastructure includes, and so could you just comment very briefly on that, and had we not ought to focus on those more traditional basic infrastructure needs?

Mayor FLYNN. Yes, that is a very, very fair astute observation. This is not—I think it is important to point out, and I think Congresswoman Molinari made the point that we are not trying to substitute things that should be done at the local level and passing it on to the Federal Government as a substitute for what we should be doing at the local community.

So, you know, certainly those municipal, those county kind of services, as the Congressman from Buffalo was talking about, ought to continue, and we have done that. That is why we put our money where our mouth is, for example, in Boston, but, you know, at the same time you reach a debt capacity as to how far you can go. You can't go any further based on what your financial limitations are in your community.

At the same time we see this massive problem out there of unemployment and despair and a stagnant economy, and so under this kind of emergency situation, I think the Congressman who just spoke is right, there has to be two—it is a two-pronged attack: one, short term and then a long term. But I am not—I don't think any of us are really expecting that the programs that we should be doing at the local level should be now added to this list because it is some sort of Christmas tree of goodies here, so, you know, what we wanted to do is identify the fact that there are 7,000 projects in the country, 7,000 projects.

We don't expect that the Government is going to be able to finance all of these projects, but it gives you a road map of where this country could go if it had Federal support, so you are right to be concerned and to be cautious about adding other things on this Christmas tree. That is not our intention.

Mr. HUTCHINSON. Thank you very much.

Thank you, Mr. Chairman.

Mr. WISE. The gentleman from—let me jump over Greg and I will get back—the gentleman from Minnesota, Mr. Oberstar.

Mr. OBERSTAR. Thank you, Mr. Chairman.

Mayor, you have laid out a very workable plan for getting jobs moving again in America. There is a 17-plus percent unemployment rate in the building trades throughout America. In some areas it is significantly higher than that, and putting people to work in that sector is so critically important because that dollar goes in the paycheck and out into the community, as you have rightly noted.

What I wanted to point out, to single out in your testimony was a very innovative proposal that the new administration designate an agency of government, and begin processing applications, if you will, before the legislation is enacted. If the President puts his shoulder behind an economic investment initiative of the kind that we could well be considering in this committee, he ought to get the machinery of government moving early so that there is no delay.

When we enacted the Local Public Works Act in 1977 and again in 1979, we put a time line of three months from time of approval of project to getting under way with construction. That time frame needs to be shortened even further, and it needs to be vigorously enforced.

As the gentleman from Pennsylvania pointed out, GAO did a study showing that there were some—there was some slippage in a number of projects around the country. We can't afford that. We can't afford to have that delay. People want those jobs. We have to be credible with the program.

We can do it. We can get under way earlier than in the past. We know how to do it.

This committee can fashion legislation to get there, and we need the support of the administration to do that, and the Federal Economic Development Administration is the agency, the best delivery mechanism we have for reaching out all across the country for getting projects like this under way. It has the experience in the past to know how to do it.

I think your idea is a good one. I would like to see us move ahead. I think we could have a half-million jobs in place by August if we would release $3 billion of the surplus in the Highway Trust Fund that is being held back to cover up deficit, a billion-and-a-half dollars in the Aviation Trust Fund that is being held back to cover up deficit, for projects that are designed, engineered, and ready to go. The FAA has identified 486 airport projects all across the country that are designed, engineered, ready to go but for the money.

Those are taxes paid for benefits not received, and every one of them will reduce congestion and improve transportation. We need to get the public sector productive so the private sector can be pro-

ductive and do what it does best. Your insight into this is very refreshing and very helpful.

Mayor FLYNN. There are so many areas of my experience with this. Yours is much broader than mine with the Federal Government, but there are so many various agencies of the Federal Government that deal with filling one pothole that I think you really need to coordinate that kind of activity, so what happened with the report that we just heard about doesn't happen. There is one person with their shoulder to the wheel, hopefully the President, with all the departments pushing behind along with the Congress. That is what I think the image of Washington needs to be portrayed to the American people.

Mr. OBERSTAR. Mayor, you are an administrator and a good one. You know that it is a matter of administration, it is a matter of somebody riding herd and saying we are not going to approve projects unless we are convinced that the bulldozers can be rolling within this time frame, and that can be a very short time frame. It is simply a matter of will and determination and being tough on project review and approval.

I want to see us do that. We could fashion a legislation. We will need to accomplish the goal. We will need the support and participation of the White House and the executive branch agencies, in this case EDA as well as FAA and the Federal Highway Administration to make sure those projects roll on time.

The CHAIR. Would the gentleman yield for a moment?

Mr. OBERSTAR. I would be glad to yield.

The CHAIR. Mayor, if we do this on a block grant basis, and you say there are too many agencies involved in filling a pothole, but if we do it on a block grant basis and make the decision on a local level as to whether you are going to do potholes or lay another sewer down this street or whatever else, won't we get away from the problem of the layering of bureaucracy?

Mayor FLYNN. By doing it with community development block grants?

The CHAIR. Yes, sir.

Mayor FLYNN. Well, I think that communities, you know, know best how to deal with how to fill that pothole. I don't really need the Majority Leader to sign a bill to tell me how to fill a pothole. I know how to do it. Just give me the gravel and I can do it.

The CHAIR. Absolutely.

Mr. OBERSTAR. I yield back the balance of my time, Mr. Chairman.

Mr. WISE. The gentleman from Florida, Mr. Mica.

Let me just make an announcement, some of you I know have travel plans, and—well, not plans as much as tickets, and so what we are going to do is to put all the witnesses on in one panel, that you will present as a block. In other words the economists will speak as a block, then we will turn to the others. Then we will open it up for questions.

My hope is we can also get a good interchange, but those of you who are looking nervously at the clock, I want you to know you are all going to be on one panel so that there will not be the interspersed questions between panels, so what that means is prepare

name tags for everybody, and enlarge the table. As we say, add a few more plates.

The gentleman from Florida, Mr. Mica.

Mr. MICA. Thank you, Mr. Chairman, and thank you, Mr. Mayor, for being with us. A couple of quick questions. If we adopted all the recommendations in the book you have there, how much—what is the total price tag, do you know?

Mayor FLYNN. About $13 billion.

Mr. MICA. $13 billion. Is there any kind of a breakdown between whether local, State and Federal projects——

Mayor FLYNN. Yes, the first page I open to is Alaska. It talks about the question of Fairbanks, I just happen to pick——

Mr. MICA. I meant, sir, just as far as the whole country is concerned, is that contained and can the staff get that? So we can get an idea——

Mayor FLYNN. I look forward to when I can give this book up. I have been carrying it around with me for a long time.

Mr. MICA. Thank you. If you were in our position, how would you pay for that?

For example, right now we have a $4.1 trillion deficit. I am not sure if your city works on a deficit basis, but we are going to be faced with either increasing revenues or the deficit very quickly here. Do you have a——

Mayor FLYNN. Well, if I was sitting in your chair, which I am not, but if I were I would certainly look at the gasoline tax to have that money to directly go into putting people back to work.

Mr. MICA. As one area.

Mayor FLYNN. I would have it directly earmarked.

Mr. MICA. Also real quickly, and I don't know if our staff can find this out, how many of those projects may be in the pipeline or eligible already for some money that has not come forth because it is used as an offset in the deficit. That might be an interesting question because some of that could—are any of those projects in that category?

Mayor FLYNN. I am sorry, Congressman?

Mr. MICA. Well, it was said that there are many projects that we now have that have been either tabled or shelved because those funds, we have not, you know, fully put forth. They are authorized, et cetera. Maybe we could from our staff get some indication of what is in the pipeline. Are any of the projects that they have spoken about in that report, do you know?

Mayor FLYNN. No. These are projects that have no identified funding mechanism.

Mr. MICA. The last quick point. It appears that you are close to the Clinton administration.

Do you know if this has been checked off by any of the transition folks or should we look for this as part of a package coming down the pike? Has it been endorsed by any of those folks?

Mayor FLYNN. Well, Mr. Clinton endorsed the concept in June, last June, during the presidential campaign of the ready-to-go Rebuild America, which is basically not these specific projects, but the investment by the Federal Government into the economy, jump starting the economy, putting people back to work, so Mr. Clinton and the general concept—and, by the way, his Cabinet folks have

been very supportive and very enthusiastic as well around the same philosophy of jump starting the economy and putting America back to work as the number one priority.

Mr. MICA. Okay, but no specific legislative proposals at this point that you have heard of that incorporate that?

Mayor FLYNN. Except that I would hope that he would look at Boston first as one of his most loyal supporters.

Mr. MICA. I have a prejudice for Florida.

Thank you so much, Mayor, and thank you, Mr. Chairman.

Mr. WISE. I would also like to point out the greatest primary vote he got was in the State of West Virginia, though.

The gentleman from Texas, Mr. Laughlin.

Mr. LAUGHLIN. Thank you, Mr. Chairman.

Mayor Flynn, I greatly appreciate your words about balance.

Unfortunately, the city has taken it on the chin for 12 years. Rural America has been taking it on the chin for a longer period of time, as the statistics will point out.

I appreciate your voice of balance and concern because one part of America should not get more than another part of America, and your voice of balance is much appreciated. I encourage you to pursue that because I will safely assure you that you will be in the White House more than all of the 200-so mayors I represent will be there this year, and so we are going to need you to be a voice that will speak both for rural America as you speak for your city.

The realities are you have got several Congressmen in your city, but I can bring it closer to home. Houston has six Congressmen, and I represent, again, an area larger than your State, and there are members of this Congress who have districts four or five times larger than my district, so it points out we have got to have you as a voice.

The last thing I would encourage you to keep in mind as you think in terms of the gasoline tax, take a look at the percent paid by the people I represent and the people in the south and west of our country compared to the people in your part of the country and be a voice of fairness on how much each of us pay and at that same time considering that people in the south and west travel each day on the gasoline, gallon of gasoline and pay tax, sometimes four and five times the distance, consequently they will pay substantially more.

Consider the fairness of taking away the exemption of a fuel tax that is on heating oil, and that may not be politically popular in your area, but I assure you it is not politically popular in the areas where we rely solely on the vehicle for our transportation to pay substantially more than people in the cities and the people in your part of the country. So I close by asking you to be a voice of reason and balance.

Thank you, mayor, for your very stimulating presentation. I wish you had more time to spend with us.

Mayor FLYNN. Thank you.

Mr. WISE. The gentleman from New Jersey, Mr. Franks.

Mr. FRANKS. Mr. Chairman, thank you.

Mayor, thank you very much for your testimony. I have a level of concern about the projects. It goes to the issue of the regulatory agencies that had to issue licenses, permits, approvals for a myriad

of the activities that would need to be pursued in order to bring these projects to fruition.

Those licenses, those approvals carry some kind of time frame. They don't go interminably. There is a window during which those approvals are valid. Are you concerned that as we debate this issue some of these permits and approvals may be expiring, thereby requiring these projects to go back through the regulatory process to get their approvals all over again, further delaying our ability to put these projects in the ground?

Mayor FLYNN. Congressman, in the questionnaire that we sent to the cities, we got 504 responses, which generated over 7000 projects that had been suspended. This is going back now some time.

The reason—one of the questions that I asked on the questionnaire was what is the period of time, because that was the lingering controversy. Would these projects, if they were in the ground, would they have an immediate effect on the economy? Could it jump start the economy? And I asked that specific question.

They came back and they said that these projects, to show by way of example to the Congress and to the President, that if these projects were approved, then they could move forward, we would have to revise that because, yes, there are certain timetables that have expired. But, again, this is only a survey of 504 communities.

Now, you are going to hear from the counties and the rural areas that also have a number of infrastructure problems just as severe as the cities do, so I think you are going to find that there has been a real negligence of dealing with infrastructure all across this country for a long period of time, unlike other countries—Japan, Taiwan, Germany where they have made investments in their infrastructure.

We have not had it here in this country, and it would be a disaster to have the debate turn rural area against cities or big cities against small towns because we are all in the same boat here, and the boat is leaking dramatically, and that is what this issue is about. Some of these projects would have to be revised, but I think you could have a book to the ceiling, you would have to have a domed stadium with a removable roof in order to have the infrastructure needs that are building and building and building, even as we are speaking.

Mr. FRANKS. Mr. Mayor, I concur with you. I want to point out that oftentimes when these permits or applications or licenses expire, oftentimes the standards have been adjusted and the project can no longer meet the newly adopted standards, and I have further concern about that, so as we look at these projects, I think it is going to be within our responsibility on this committee to make certain that these projects have the level of regulatory approval and a lifespan during which we can, in fact—

Mayor FLYNN. Certainly the Americans with Disabilities Act would be, I guess, a concern that would be an example of what you are talking about.

Mr. FRANKS. Thank you, Mr. Chairman. Thank you.

Mr. WISE. The gentleman from California, Mr. Tucker.

Mr. TUCKER. Thank you very much, Mr. Chairman.

Mr. Mayor, thank you very much for your time and for your testimony today. As a former mayor of a local city, the City of Compton, California, I was one of the first respondents to your call with the U.S. Conference of Mayors to put in my ready-to-go project, and I believe it is still included in the very large compendium that you have before you. I truly appreciate all your comments and specifically one of the comments that indicates that if we can fast track jobs somewhere else, then most certainly we can fast track jobs here in America.

I want that the charity does begin at home and spreads abroad. Also I think that your comments are very pertinent inasmuch as this whole debate about whether or not we should back off of an economic stimulus tends to turn on some of these economic indicators, and these economic indicators, of course, must be looked at not only at first light but must be looked at in full context.

We talked about, and you have talked about the national unemployment rate being at roughly seven percent. Well, I am sure in Boston, as in the City of Compton and other cities and communities all around this country, that that unemployment rate is much higher.

In the City of Compton it is somewhere like 25 percent, and we don't even want to talk about the unemployment rate of certain strata individuals. Let's say, males between the ages of 16 and 35 years old, it is even double that.

So I would implore you, as my colleagues have done, to stay the course, and we most certainly will do our job here, but if, in effect, you have the ear of President-elect Clinton and others who can make some concrete decisions on this, to accelerate this as soon as possible, then I would encourage you to do so.

Once again, I applaud you for your work thus far. We look forward to working with you on this. Thank you.

Mr. WISE. Thank you.

The gentleman from Georgia, Mr. Collins.

Mr. COLLINS of Georgia. Mr. Chairman, I just want to extend my appreciation to the Mayor for appearing before this subcommittee here this morning. I thought your remarks were very informative.

I have problems with the fact that there may be some suggestion of tax increases, especially tax increases that affect middle class working America, but, again, thanks for being here. I know you have a schedule to meet.

I have some questions, but we will do some research on them and find the answers ourselves.

Thank you.

Mayor FLYNN. Thank you, Congressman.

Mr. WISE. And thank the gentleman.

At this point I would like to request unanimous consent to introduce two statements into the record for opening statements, the gentleman from Michigan, Mr. Barcia, and the gentleman from Illinois, Mr. Costello.

[The statements of Messrs. Barcia and Costello follow:]

STATEMENT OF HON. JAMES A. BARCIA

Hearing of the Economic Development Subcommittee
January 15, 1993

MR. CHAIRMAN, I would like to thank you for your leadership in getting such a quick start on this most important of subjects: investment in our economy. I would like to offer my support for this series of hearings on short and long-term infrastructure investment strategies, and express my commitment to participate at every stage of this process.

If we are to address the economic distress now being faced by American citizens such as those in my 5th District of Michigan, we must act in a timely fashion. The Department of Labor recently announced that our December state unemployment rate was 7.9 percent, with a three-month average of 8.4 percent. Although there are those who suggest that we are emerging from the recession that has been dragging on our economy since 1990, an 8.4 percent unemployment rate is not acceptable for my constituents, nor should it be for anyone in this country. We must provide relief. It must be provided in a responsible way, and only for as long as it is absolutely necessary, but we must act to provide short term employment relief for our citizens who cannot find a job.

I also salute you, Mr. Chairman, for paying much-needed attention to the necessity for long-term structural changes in our economy. My constituents and I are well aware that no short term program will address the enormous crisis presented by American jobs which have disappeared from the automobile and other manufacturing industries.

In addition, I know that there are many communities facing tremendous hardship due to the pending closure of a military base in their area. The Air Force has predicted that the closure of Wurtsmith Air Force Base in my district will result in a loss of 50 percent of the population of Oscoda, Michigan. The Air Force economic analysis estimates an unemployment rate of approximately 27 percent after the closure of Wurtsmith and the Michigan Department of Social Services has predicted that by 1995 one-third of the households in Iosco county will be receiving social program assistance due to the loss of jobs in the area.

These problems will not be solved through a short-term federal stimulus program. Our nation's competitiveness must be enhanced through long-term worker retraining, and government and business investment. I do not favor a strategy of throwing federal dollars and programs at the problem. These hearings represent an important first step in determining the most responsible strategy for accomplishing our goal of providing a better future for our children and a job for every American worker.

Once again, Mr. Chairman, I thank you for your leadership, and I look forward to working closely with you on these critical issues for the 103rd Congress.

Statement of Hon. Jerry F. Costello

Mr. Chairman, I would like to thank you for calling this hearing today. This subject matter we will discuss, infrastructure investment for economic stimulus, is absolutely imperative to our nation's future. I also would like to welcome the distinguished panelists who have assembled to discuss this issue.

Job growth and an improved economy are the central issues the Congress must address this legislative session. I strongly believe that investment in our nation's infrastructure is necessary for growth in our own economy as well as enhancing our competive position in a global economy. Short-term and long-term infrastructure projects need to be examined to address these issues.

I look forward to hearing the testimony of today's witnesses, and hope that the Subcommittee will continue to hold hearings on the issue of economic stimulus through infrastructure investment.

Mr. WISE. Mayor Flynn, we thank you very much for taking the time for being with us, for opening this up. I think you have set the stage well and the subcommittee looks forward to working with you in the very near future on this package.

Mr. FLYNN. Don't forget my potholes, Ms. Molinari.

Mr. WISE. The Chair will now call the next panel and all the panels in the spirit of getting projects moving quickly.

The first panel, I would ask all witnesses if they would come and be seated.

We will put the package of economists to testify next: Dr. Barbara Bergmann, distinguished Professor of Economics at American University here in Washington; Dr. Robert Eisner, Professor of Economics at Northwestern University; Mr. Jeff Faux, the President of the Economic Policy Institute in Washington; and Dr. Douglas Holtz-Eakin, the Associate Professor of Economics and Senior Research Associate at the Maxwell School, Metropolitan Studies Program in Syracuse University, of course, in Syracuse, New York.

I would ask the other panelists to be seated, but I will introduce you as we work to that panel. I apologize for any actual inconvenience.

I am actually doing this for the benefit of the witnesses. I have come to a revelation that if we are going to try to get projects moving in 90 days, we have to figure out a way to get this hearing going and finished some time before tomorrow. I think it is extremely important. I know some of you have travel arrangements.

I think it is extremely important that this committee hear your testimony because in reviewing it I find much of it invaluable.

At this point, I would turn to our panel of economists and I would ask our panel if Dr. Bergmann would open up.

Doctor.

TESTIMONY OF DR. BARBARA R. BERGMANN, DISTINGUISHED PROFESSOR OF ECONOMICS, AMERICAN UNIVERSITY; DR. ROBERT EISNER, PROFESSOR OF ECONOMICS, NORTHWESTERN UNIVERSITY; JEFF FAUX, PRESIDENT, ECONOMIC POLICY INSTITUTE; AND DR. DOUGLAS HOLTZ-EAKIN, ASSOCIATE PROFESSOR OF ECONOMICS AND SENIOR RESEARCH ASSOCIATE, THE MAXWELL SCHOOL, METROPOLITAN STUDIES PROGRAM, SYRACUSE UNIVERSITY

Dr. BERGMANN. Thank you. I think it is safe to describe the current state of the American economy as mid-level stagnation. Those of us who are old enough to have experienced many recoveries know what a recovery looks like, and what a vigorous recovery looks like.

In a vigorous recovery, month after month we get reports of new orders surging, retail sales rising, new housing starts going up and so on and so on. We are not getting that at all. We are getting three bad reports and maybe one good report, and then three more bad ones.

So we are not obviously in a vigorous recovery. Such a recovery period may be just around the corner, as they used to say in 1930, but we obviously have not entered it yet.

The economists of the Bush administration had the strongest incentive possible to prompt a vigorous recovery. Yet they held off

from applying stimulus to the economy for two reasons. They assumed that the recovery was just around the corner, that the common pattern of the post-recession period would repeat itself again, and that vigorous recovery would follow this recession with reasonable promptness. They kept seeing the signs, one good report among three bad ones, and they relied on that.

The second reason that kept them back was, of course, the size of the deficit and the national debt, which had resulted from the shameless and irresponsible riverboat gamble of the Reagan years.

In the last few days, however, Michael Boskin, chair of Bush's Council of Economic Advisers, has acknowledged that the Bush administration erred in not applying greater stimulus a year ago. We have to presume that Boskin, who is a very estimable person, was talking about the welfare of the country rather than President Bush's political welfare, and that what he means is that the country's economy would be better off if more stimulus had been applied.

If Boskin is right and more stimulus should have been applied a year ago, then what about now? I believe the case for more stimulus is stronger now than it was a year ago. We have had an extra year of stagnation, and there is still no vigorous recovery such as I have just described in sight. Again, it may be around the corner, but we certainly cannot take that for granted.

Now, the benefit of doing something right now, of course, is that we put people back to work, and we get the use of the extra output they would produce which otherwise would be lost. I think there is relatively low risk in giving an immediate stimulus. There is very little danger in reducing output by government spending, for worthwhile projects would displace the production of higher priority output that would otherwise occur through private spending, because private spending is very slack.

It is obvious that there is and will be for some time considerable slack allowing leeway for stimulus. If we consider private investment, which is crucial to productivity growth, a more vigorous economy, more vigorous recovery will stimulate that. There is little danger of crowding out private investment because of a stimulus package if the Fed does its part to keep interest rates low. The danger of overheating appears remote.

Getting to the downside of stimulus, the cost is obviously increasing the deficit temporarily, and permanently increasing the national debt. A temporary increase in the deficit should have little bad effect on the economy if the Fed plays its part and does not allow the extra supply of bonds to raise interest rates.

The probably permanent increase in the total debt is somewhat more serious because the increased interest payments that the Treasury must pay detract from your ability to finance worthwhile projects with a given tax base. The high interest costs themselves increase the deficit with a snowballing effect on the size of the debt.

However, and I think this is important, a temporary stimulus need not preclude the immediate adoption of long-range plans for reducing the deficit. This would be a good time to raise income taxes on the upper income groups which would have a minimal ef-

fect on demand, and to pass a bill which phases in a rise of the gasoline tax when recovery is established.

Finally, I would like to get to the issue of what the stimulus package should be. Obviously there are many worthwhile public works projects that should be funded. However, I would urge that a recovery program include money for the States and localities to avoid or reduce the cutbacks in important services that are now occurring. That kind of recovery package would also obviously increase jobs, save jobs.

Federal funds should help the States avoid cuts in mental health services, in youth counseling, police services, help for the homeless. I think the primary or exclusive emphasis on construction projects, particularly those which take a long time to get started, should be avoided.

I think Representative Molinari's question about redefining infrastructure is a very important and interesting one. Obviously schools, hospitals, and things of that sort should be included.

I also would urge this committee to think about something which has long been taboo, and that is to think about public housing. Obviously our whole public housing mode of operation has not been successful. Nevertheless, a continued need of low-income groups for more housing and reasonable rent needs to be attended to.

Here again, I think we ought to look abroad and study their public housing program in terms of building and operation, and see what lessons can be learned.

I am also concerned with the behavior of the construction industry. The construction industry continues to be dilatory to opening skilled jobs to minorities and women. Black unemployment rates are now running at 12 percent. Single mothers need jobs, good jobs, and an equitable recovery policy has to put high priority on getting high minority unemployment rates down and reducing welfare rolls by opening job opportunities for people on those rolls.

Relying mainly or exclusively on construction projects to stimulate the economy under the present mode of operation of the construction industry means leaving women and minority workers out of a recovery package to a very great extent.

I previously suggested and I suggest again that the committee should be concerned about this, and that any bill with funds for construction contain provisions that would disqualify 10 percent of contractors in each county that have the worst record in terms of meeting their obligations to conduct hiring fairly. The Labor Department has the data to make a quick determination of eligibility on this.

I don't think this will be too onerous, the 10 percent disqualification, and I think it would send an extremely important message to the industry that if it wants to be a part of a recovery package, it needs to clean up its act.

To conclude, I think the case for a recovery package continues to be compelling and should not be long delayed.

Thank you.

Mr. WISE. Thank you, Dr. Bergmann. I appreciate those remarks.

I think it might be helpful—your written statement in its entirety will be made a part of the record, so if there are some points

you wish to address or you wish to summarize, that would be appreciated.

Dr. Eisner.

Dr. EISNER. Thank you, Mr. Chairman.

My written statement, as you say, will be in the record. We have just completed the campaign a couple of months ago, and have an incoming President who ran on the central theme of the economy. I should add to this group the word stupid that we heard, and the issue was fought in terms of trying to establish a return to jobs, a more prosperous future, and that is going to involve investment, it was pointed out, public and private, physical and human. We have heard a recurrent chorus, "Maybe we can't do all this because of the deficit. The deficit is presumably even larger than people say."

I must insist, at the risk of provoking some people, that that is utter nonsense, the idea that the deficit prevents action. The fact is that our high unemployment is contributing to the deficit. If you look at the figures of the CBO estimates, if you look at the latest document that came out of the Office of Management and Budget, you will find that every one percentage point of unemployment adds $50 billion to the deficit. The key to reducing the deficit in a way that does not injure the economy is to make the economy grow.

There is a huge lot of nonsense on budget deficits but much less real information. At the risk of being somewhat offensive even to Members of this committee, people don't literally know what they are talking about when they say deficit or debt.

We heard one statement here that the deficit is $1.3 trillion. That of course is the debt, not the deficit. The significance of the deficit is that it adds to the debt.

One way to look at that—and I would urge that to this committee and everybody else—is to recognize that everybody has debt; the private sector has debt, businesses have debt. The question is, is the debt too large? And in a growing economy the question is, is the debt growing faster than the economy? That should be a good rule of thumb for the Government, and if you look at that you are going to see there is no excuse for allowing concerns about the deficit at this point to prevent us from undertaking the action to get the economy moving properly.

Now, as Dr. Bergmann pointed out very well, we have just been treated to the remarks of the distinguished economist, Michael Boskin, of the outgoing President's council, and he acknowledged that he urged stimulus to the economy over a year ago, and apparently Mr. Bush refused to take that advice. Mr. Boskin inexplicably calls it a courageous decision. It was a decision that was costly, as Mr. Boskin points out, to the Bush administration and to his chances for reelection. I would say it was even more costly to the American people.

We then heard—and I testified before this committee in March, I testified before the Ways and Means Committee in December—we then heard, "Well, the economy is probably recovering. Just leave it alone. If you do things now, you may do too much." I would say that that was nonsense then. It is nonsense now.

We have a 7.3 percent rate of unemployment. The Chairman of the Public Works Committee had a fine release pointing out what has been happening to unemployment. It has not gone down significantly. I might add, the deficit projections that worry people are made by OMB on the basis of a set of private forecasts, Blue Chip forecasts, which have unemployment for all of 1993 averaging 7.2 percent. No wonder you are going to have big deficits with that kind of a level of unemployment.

I joined with distinguished economists in Little Rock urging a stimulus package to try to get the economy going. I would say if the Congress does not act on that and get it through, with I hope the support and leadership of the administration, you are going to have the same spectacle that you had with the Bush administration. You will have political fallout which will injure the people concerned, and again, more important, you will have a fallout to the economy and the welfare of the American people.

The gross domestic product currently is running some $400 billion a year below potential, below normal. It is losing $100 billion a year of gross private domestic investment. Those are losses which are not only losses currently in terms of the output we can enjoy; they are losses for the future. It means our children and grandchildren will be worse off.

Remedies? In the way of public expenditures, public investment, would be the release of and appropriation of government funds as quickly as possible for all of our infrastructure needs in roads and bridges, airports, sewage systems, for education, for health care, for research, for crime fighting, for reconstruction of our decaying cities, for reinvestment in our rural areas. Those are the ways we can progress and have the highest standard of living for which we are looking.

I might just emphasize, again, things you can take out of the official OMB report of the outgoing administration. The projected Federal expenditures for roadways and bridges, for example, for 1993 and 1994 are in the $17 billion range. In that same document, on the next page, they point out estimates of the annual cost to maintain overall 1989 conditions on highways and bridges, and they were twice the projected expenditures for each of the next two years. That is just to maintain those conditions, let alone to go further.

There have been many papers, research papers by economists trying to estimate the productivity of public investment. Admittedly it is a hard thing to do. There is much disagreement. You may hear some disagreement on this panel. I can point, though, to my own papers, to a group of other papers, and give you the names of people, which indicate clearly that our public investment is profitable, it adds to productivity, it stimulates private investment. That, of course, is no excuse for pork-barrel spending, but there is certainly plenty of public investment to be undertaken which would be productive, which would add to our future.

I do have a prepared statement, suggestions on what you can do about the deficit. I have suggestions on a comprehensive stimulus program.

On the comprehensive program, I would say that while the infrastructure spending is critical, which should add perhaps $20 billion

a year to the long-term plans for investment in infrastructure that President elect Clinton has outlined, there are other things to be done, we should recognize. They are not all the province of this committee.

I would suggest a major incremental tax credit, temporary, for getting a great deal of private investment, all focused on getting it done in one year. So you have a stimulus which will also add to the future.

We could have a similar subsidy for purchase of new houses, not existing houses, to give profit to real estate agents, but new houses that will be constructed in the next year.

We could reinstitute the old jobs credit we had years ago which would try to encourage employers to increase their employment.

Now, on the matter of deficit reduction, I heard it said here by one of the Members that the primary problem, critical problem facing this Congress is deficit reduction. It simply is not, and I wish people would stop repeating it over and over again. The primary problem is jobs, is economic prosperity, is growth. Where the deficit fits in is not such a simple matter.

I think almost everybody agrees that at this point you certainly don't want deficit reduction. Deficit reduction now would take away jobs, no matter how the deficit reduction is done. Over the long run you want a responsible, prudent fiscal policy.

I would suggest—I won't take the time here, it is in my proposal—if you are thinking about deficit reduction, you should aspire to a policy where the debt continues to grow as everybody else's debt grows, but not grow too fast, and it should be tied into the state of the economy.

You can have deficit reduction either by cutting spending or by raising taxes, however you wish, when the economy can take it, when it is not going to be reducing jobs, when your unemployment rate is as low as you want it to be. And that is the kind of program you should face.

Just a final word or two, to be provocative. I know it is easy to blame foreigners and say we should buy American and watch out for foreign subsidies. That is not the way to put our own house in order. It is not going to help our economy.

We should help our economy by investing, public and private, and keeping our eye focused, as I said in Little Rock, on the economy, and not on any sideshows.

Mr. WISE. You know how to get a discussion started.

Our next witness will be Jeff Faux, the president of the Economic Policy Institute.

Mr. Faux?

Mr. FAUX. Thank you, Mr. Chairman, Members of the committee.

I have submitted a longer statement. I will summarize my views now.

The conventional wisdom is that we don't need stimulus. To be fair, this was not just the view of Michael Boskin and the White House. This was a conventional wisdom that was shared by many Democrats.

A year or so ago, I testified with the Director of the Congressional Budget Office who was essentially saying the same thing as Richard Darman was. The argument was that by the time we in-

vest and get the money out to create jobs the recession would be over, we would be into a recovery.

Moreover, we were told that the real problem facing the economy is long run, and that unemployment is just a function of a short-run cyclical problem, so that if we increased spending it would increase the deficit and make things worse.

This conventional wisdom was so accepted, as has been pointed out, that George Bush bet his Presidency on it, and lost. And as Dr. Eisner says, we have had real economic losses as a result. At least a trillion dollars in goods and services over the last three years have been lost because of high unemployment.

But there were also some human losses. Because I don't have these numbers in my written testimony, I just would like to take a moment to share them with you.

The Economic Policy Institute recently released a study showing the impact of recent high unemployment on certain social indicators. For example, in the 30 largest metropolitan areas in the nation, the rise in unemployment from mid-1990 to mid-1992 resulted in the following: 38,000 additional deaths from heart disease and stroke; 1,500 additional homicides; 63,000 additional violent crimes; 224,000 additional crimes against property. That is just in the 30 largest metropolitan areas.

So we are talking here about real pain, real lives, and in many cases, a question of life and death.

Now, we have been told by the economics profession that the recession was over some 20-odd months ago. That is very interesting because it tells us something about the nature of the economy we are facing and the nature of the stagnation.

We clearly do not have just a short-term problem. We are now in the long term. This is what it is like. And the problem in the long term is not the savings rate. The problem in the long term is not public spending crowding out private spending. The problem in the long term is not enough investment and job creation.

This is not simply a short-term problem that will disappear with the natural working of the business cycle. Business is not investing today, not because it is being crowded out by the public sector. It is not investing today because there are not enough customers coming in the door with money in their pockets to buy the goods that business produces.

Unfortunately, the outlook for job growth is not good. Some forecasters think we will be heading into a downturn in 1993–1994. I can give you my views on why I am sympathetic to that position. One of them is that we expect an up to $80 billion hit on the American consumer in the first quarter of 1993.

As you recall, George Bush stimulated the economy by decreasing withholding on payrolls in 1992. That will be paid for in one quarter in 1993 with perhaps an $80 billion decrease in the disposable income, going to the American consumer.

But even the optimists are predicting that we will have slow growth in jobs and in economic recovery in general over the next five to eight years. The latest consensus forecast is telling us that the unemployment rate will remain over 6 percent—now these are optimists—through 1996, and that by 1998 we will still not have an unemployment rate that is as low as it was in 1990. This means

that in eight years we will still not be back to where we were in 1990. This is not a short-term problem.

Now, no one knows the future. So it really is a question of risk and risk assessment. That is what we face in this issue of stimulus.

Let us say the optimists are right. Let us say after predicting recovery for the last four years, finally they have got it right and the unemployment rate will be dropping over the next few years. Let's say we stimulate the economy anyway. What happens? The worst that can happen is we get to full employment faster. There is no inflation threat. There is no crowding out.

So if you are looking at the range of forecasts, and let's take the worst case in terms of overstimulation, we are still simply investing in things the country has to invest in anyway in order to keep up with other competitive nations.

But let's take the other side. Let's say the pessimists are right, and we don't stimulate the economy. That is a formula for the third dip of a triple-dip recession. And I ask you to judge not on the basis of one economist or OMB or CBO's projections; judge on the range of possibilities. When you do that, I think you will see that clearly the path of least risk and most promise for the country is stimulus now.

Specifically, I would recommend a stimulus package similar to the one proposed last spring by 100 economists including myself and Dr. Eisner. The proposal was put together by Nobel Prize winners Robert Solow and James Tobin. It called for $50 billion stimulus in new public investment, human capital as well as physical capital.

Finally, Mr. Chairman, I would agree that the condition of our public infrastructure now is such that we cannot define the problem simply as stimulus. We need to continue to invest over the next decade, but when we get to full employment, that is the time that we finance investment with taxes and do it on a pay-as-you-go basis.

At the end of my written testimony, I provided a table with some economic projections for three possible economic scenarios over the next eight years. One is an investment-led growth program which emphasizes public investment. The second is a program that essentially continues what we are doing now, business as usual. And the third is an austerity program modeled after the proposals of Ross Perot and some others.

I would summarize it by saying at the end of four years, an investment-led scenario generates another $150 billion more in public investment and $64 billion more in private capital investment than the next best scenario. Cumulative gross domestic product comes to $230 billion more, generating about a million more jobs per year.

And by 1996, the deficit will be smaller than the business-as-usual scenario. Over eight years the investment scenario beats the other two in every single category.

Now, you have to always be careful when an economist gives you numbers, so I would invite you to direct the staff of your committee to look at how we put this model together, and I think you will see that it is based on fairly conservative assumptions with dramatic results.

Thank you.

Mr. WISE. Thank you.

Our next witness will be Dr. Douglas Holtz-Eakin, Department of Economics and Metropolitan Studies Program at Syracuse University.

Dr. HOLTZ-EAKIN. Good morning, Mr. Chairman and Members of the committee. Thank you for the opportunity to talk to you this morning.

I have a written statement I would like to submit for the record, and in my remarks I would like to convey the following points.

First, I would like to address the proposition that infrastructure spending is the solution to a national problem. The evidence doesn't support this simple theory.

Second, claims that we face a national infrastructure crisis are somewhat overstated. Instead, there are enormous differences in public capital needs across States and regions.

Some of these needs are quite serious. But it would be a mistake to extrapolate from the worst cases to the U.S. as a whole.

Third, no Federal program for additional capital outlays should go forward without first rethinking the incentives to use our existing infrastructure efficiently. We need to reorient policies, but towards correct pricing and maintenance of the infrastructure we already have in place, not necessarily new spending.

You are familiar by now with claims that an inadequate infrastructure base has impaired productivity growth in the United States. My views share a great deal with the analysis behind these claims.

The role of public sector capital has been overlooked in conventional economic analyses for quite some time. The recent revival of interest in infrastructure is a welcome sign of progress in understanding our economy.

Further, among the services that do combine to generate productive workers and firms are the services provided by infrastructure. Thus, it makes sense to look to infrastructure in understanding our current economic circumstances; circumstances that are primarily characterized by sub-par productivity growth over the past two decades.

Where I part company with this line of thinking, however, is in the magnitudes involved. In my examination of the relationship between infrastructure and productivity, the evidence indicates that a significant permanent effect is just not in the numbers. Over one to two years one might pick up a transitory effect, and I will return to that issue later.

My written statement contains details of my argument that long-run productivity increases are likely to be quite small. In the 1950s and 1960s, the U.S. economy fared well. As a result, programs like the interstate highway system, infrastructure and other infrastructure capital also grew rapidly. Then in the early 1970s productivity growth slowed dramatically and in the absence of large projects and under the pressure of tighter budgets, so did government capital spending.

The result is a statistical correlation between public capital and productivity growth. We know that correlation and causation are not the same thing, and studies designed to isolate the degree to

which infrastructure causes productivity growth find little effect. As I noted earlier, I found essentially none.

The numbers reflect the facts that prosperous States spend more on infrastructure, and infrastructure is sensitive to changes in the economic environment. It does not, however, appear that economic prosperity is strongly dictated by infrastructure spending.

Now, our nation may decide to devote more of its resources to Federal, State and local capital projects, and I will provide a list of reasons why we might want to do so. But if we do it to raise productivity we are likely to be disappointed.

Let me emphasize that this conclusion doesn't hinge on whether the productivity effect is zero or not. Even if infrastructure has mild productivity effects, I am firmly convinced these will be swamped by the larger benefits of enhanced investment by private firms or by improving the skills of our work force.

So from a productivity perspective, this is of a higher priority than infrastructure. Some people see signs of decaying infrastructure every day and are rightly quite skeptical of the argument to this point.

This brings me to the second issue. It is dangerous to talk about the infrastructure. Much of the infrastructure is local and localities differ enormously.

Consider the experience of the United States over the past 20 years. In the early 1970s, at the end of the rapid growth period I talked about earlier, the United States had roughly $5,200 in State and local capital per person. As is well-known, in the subsequent time period government capital outlays slowed. Despite this, capital spending more than kept pace with the demands of population both in 36 out of our 51 States, including the District of Columbia, and thus facilities were not permitted to decay across the Nation. Instead, only 15 States experienced declines, and the average shortfall is about 9 percent.

Circumstances differ across the United States and policy should reflect these differences. What should a Federal infrastructure policy look like? New spending is not the only nor the best policy option. More attractive policies focus on old infrastructure.

The fact that some of our infrastructure is congested and in disrepair is a direct reflection of the way we do business. In most cases, infrastructure is perceived to be free. And anything that is provided for free tends to be overused.

There is little financial incentive to avoid congesting our airports, harbors, and other infrastructure. For this reason, fees for the use of infrastructure will accomplish many objectives better than new spending.

The willingness to pay a fee for the use of infrastructure signals the value of the facility and helps in the planning process. Properly designed user fees will provide incentives that reduce congestion and reduce the need for expanded facilities. At the same time, fees may be targeted towards those users who place the most demand on infrastructure.

Finally, fees also provide a stream of resources available to maintain the facility. And the last of these is significant. It has long been recognized by analysts that we need to balance the scales between the incentives to purchase new capital through matching

rate grants and other policies and the timely maintenance of our existing infrastructure.

In some cases, the ISTEA legislation mentioned several times today, incentives for maintenance have been introduced. But providing adequate maintenance remains a valuable objective to the future.

We have water supply facilities, sewers, roads, waste water treatment plants, and other infrastructure in large part because they raise the well-being of our citizens, not because they make firms or workers more productive. Thus, one could argue in favor of spending more on infrastructure because of the increase in the standard of living that will follow.

But there are clearly many ways to improve living standards. At the Federal level, infrastructure should compete on a level budgetary basis with deficit reduction or health care costs or a myriad of other competing needs.

Moreover, nearly all the benefits of infrastructure accrue to local residents. An important principle of public finance is to match tax burdens with benefits to generate efficient and equitable financing schemes. In this case, that logic argues for local, not Federal finance of new infrastructure.

This brings us to the final attraction that has generated a lot of attention today, economic stimulus. The very act of capital spending will generate employment activity. However, infrastructure spending is not the only way.

If we decide to go forward with stimulus, we should weigh all of our options. There are drawbacks to relying on capital spending for stimulus. In the end, any such stimulus fades—the jobs disappear, the projects are completed. Thus, there is no long-run gain. Worse, unless the projects are carefully chosen, we may have chosen spending capital for a transitory benefit.

Projects should be selected on the basis of careful planning, not general arguments at a macroeconomic level. The same time-consuming planning process that is the key to effective use in long-run policy is at odds with the timetable of a short-run stimulus.

While economic stimulus is a potential motivation for new infrastructure programs, one should be skeptical that the stimulus will arrive in a timely fashion, and be clear about whether it provides a means for sparking the economy.

The facts do not support spending more on infrastructure to establish productivity growth. The most advantageous directions are not likely to be more spending. Instead, a reliance on benefit-cost analysis at the project level, incentives to reduce congestion and rewards for proper maintenance can be more promising. There is a legitimate interest in improving the flow of productivity to our citizens and stimulating the economy.

Again, I want to thank you for the opportunity to discuss these issues, and I would be happy to take any questions when the opportunity arises.

Mr. WISE. Thank you very much.

We will now turn to our second panel, continuing with public officials, and we have already heard, of course, from Mayor Flynn.

We have next Ms. Cathy Reynolds, councilwoman-at-large, the City of Denver, also former president of the National League of

Cities. We have on this panel the Hon. Warren R. Waggy, mayor of Franklin, West Virginia, I am happy to say someone I had the privilege of working with. He is accompanied by Gary R. Wilson, Coordinator for Economic and Community Development, Pendleton County, West Virginia.

There was concern about whether there was good diversity in rural areas. We had the Mayor of Boston and the Mayor of Franklin, and both have problems. Franklin has less than a thousand persons, and of course Boston is very large. Sitting side by side here we have Ms. Molinari, who represents the largest city in the country, and I represent the most rural state, eastern Mississippi. So I think we have got good diversity.

Also appearing on this panel will be the Hon. Kenneth Stoner, Judge of Phillips County, Arkansas.

Ms. Reynolds.

TESTIMONY OF CATHY REYNOLDS, COUNCILWOMAN-AT-LARGE, CITY COUNCIL OF DENVER, CO; HON. WARREN R. WAGGY, MAYOR, FRANKLIN, WV; GARY R. WILSON, COORDINATOR FOR ECONOMIC AND COMMUNITY DEVELOPMENT, PENDLETON COUNTY, WV; AND HON. KENNETH STONER, JUDGE, PHILLIPS COUNTY, AR

Ms. REYNOLDS. Thank you very much.

On behalf of the 16,000 cities and more than 150,000 municipal-elected officials represented by the National League of Cities, I do thank you for the opportunity to appear before the Subcommittee on Economic Development and offer our perspective on an economic stimulus package to jump start our nation's economy.

After all, our national economy is a product of all our local economies. There is a spatial dimension to our economy. The only place we can grow our economy is in our cities and towns.

We believe there must be a major refocus of national priorities to begin rebuilding America. Those steps must involve every community and every business, strategic investment in our country's future. To succeed it will be essential for to us work together at every level of government to implement a plan that will stimulate our local economies and the national economy and produce investment in our people in the long run.

For example, in the City of Denver we can create jobs and stimulate our economy, if the Federal Government will join with the city and the State in providing funds for, for example, our 23rd Street viaduct which we need for access to lower downtown, which we have been investing in along with the private sector, and provide access to the major league baseball stadium. This will provide jobs and give us access to our central economy, and also reduce air pollution by getting people off of the highway rather than having traffic circulate through residential areas.

Our proposal was unanimously adopted at our Congress of Cities meeting last month. It is divided in three parts. First, restarting our economies through an economic stimulus strategy. Second, reforming Federal budget priorities for investment and deficit reduction. And third, investing in communities and people.

In our view, restarting our economy and reforming our budget priorities must occur immediately. We must move away from con-

sumption and towards strategic investment. Our new leader's motto was, "The economy, stupid." Focus on the economy is the key today.

I know of your expertise and commitment from our efforts to work with you, Mr. Chairman, in both your leadership on the Speaker's Task Force on Infrastructure and on your capital budgeting legislation of your expertise and commitment. We know and agree that one of the most critical factors in the significantly higher deficit projection come from reduced revenue projections. Consequently, we recognize that increasing productivity and growth is a critical means to restore revenue resources to the Federal budget.

Productivity, you know as well as we do, depends upon building a public and human infrastructure. It means changing the way we do business in this country. It may even mean changing our focus from consumption to investment. It means beginning today to put in place our strategy for the next century to ensure our economy is stronger than that of Japan and the united Europe. And that means investing in ourselves.

First, we support the short-term economic package that provides, one, a 1993 supplemental appropriation of $2.5 billion to ensure full funding of the nation's new highway and public transportation laws. Denver alone has $38 million in ready-to-go bridge and road projects, including our 23rd Street viaduct.

Two, a streamlined version of the urban aid tax bill that will provide immediate assistance to the nation's cities and towns. For example, in Bangor, Maine, they are holding $226,000 in reserve as arbitrage proceeds that must go back to the Federal Government in four years. Better to allow Bangor now to use the money for public infrastructure that will create jobs and economic opportunity.

Three, $3 billion in one-time supplemental funding for Community Development Block Program to be obligated by September 30, 1993, with $1 billion targeted to children under the age of six.

For example, according to the National Head Start Association study published in the spring of 1992, one-third of Head Start centers and other facilities, quote, "should be replaced, require extensive remodeling or repairs, or are otherwise substandard," unquote. On average, the cost to make the needed repairs in these local programs was reported to be $90,000. Nationally, the cost of remodeling and repairs was estimated in the range of $93 to $178 million.

If we are going to honor our pledge to fully fund Head Start, certainly at least the centers currently in place must be made acceptable in the community.

Four, $1 billion in supplemental funding for the 1993 Summer Youth Employment Program, and early, please. We have to get to these kids before school is out or we have lost them. Waiting until July, as we have done before, severely cripples the effectiveness of what otherwise is a fine program.

Five, we support $500 million in supplemental funding to provide incentives for Community Development Banks and bank-run Community Development Corporations. We need to leverage some of the more than $3 trillion in bank assets sitting in vaults underneath our city and town streets and use it for capital reinvestment in our communities.

Number six, we support the immediate enactment of the Local Partnership Act. Your communities are the best judge of what their most critical infrastructure needs are for economic growth. In Denver it is our bridges, but in Paonia, Colorado, EPA has demanded new water treatment facilities: Estimated costs, $430,000, plus $3,000 on into the future in 1992 dollars to monitor the system. This is for a town of 1,400 people. They are crying for help.

Longer term, we urge the President and congressional leaders to offer a realistic plan to reorder Federal spending priorities and begin to reduce the deficit with clear deadlines for action and clear consequences for failure to meet those deadlines. Federal unfunded mandates force us to sidetrack investments in infrastructure to meet nonlocal priorities, such as an otherwise fine water system.

EPA's own study suggest that we have disproportionate burdens on poor communities. The Congressional Budget Office projects that Federal spending on entitlements and interest on the national debt alone will equal total projected Federal revenues by the year 2002. That will mean eliminating all defense spending, foreign aid and domestic investment, just to balance the budget. We are on a current path of self-destruction.

We, the National League of Cities, the cities and towns we represent, are prepared and committed to making very hard choices necessary to make long-term investments in our future to have a productive economy. And I want to stress hard choices. But advocating major reductions in defense spending, we know there is a perception that we are just cutting the other guy's stuff, but it is a huge issue in California. And in Denver, Colorado, it is Lowry Air Force base. We know better than anyone that serious cuts in defense impact both bases and contracts in our communities in every part of America. We believe those cuts must be made with sensitivity. We believe there must be assistance in conversion. But we are prepared to make those tough decisions and to make the hard choices critical to our future because we need to invest in our communities.

For this committee we believe that will involve a renewed Federal commitment to promote, encourage and participate in investment in public capital facilities, spending Federal trust funds for the purposes for which they were accumulated, and removing them from Gramm-Rudman calculations, and creating a dedicated revenue stream for capital investment in the future.

All of us must work together in reshaping Federal spending priorities to ensure economic security for the next generation. The Nation's cities and towns recognize that any credible plan to balance the budget must include reducing defense spending by 30 percent in real dollars to a level no greater than $200 billion in budget authority and outlays in 1996, with 60 percent of those savings dedicated to reducing the Federal debt and deficit, and 40 percent to shifting funds to investments in cities and towns, acknowledgeing that many communities will be adversely affected by the cut back measures.

And to meet budget and deficit goals, we must limit the growth in Federal entitlement spending and we must put revenue measures in place.

The National League of Cities stands ready to join in a national effort to make these proposals a reality and supports using any savings to reduce the national debt and reinvest in our public and human resources. NLC urges strong and swift action to create a strong economic environment in which we can focus on long-term investment in communities and in people.

Mr. Chairman, we have submitted a more detailed outline in written testimony that I hope you will have a chance to look at. Once again, we very much appreciate your time and your patience in working with us towards these economic goals.

Mr. WISE. Thank you.

We have got a lot of work to do and I appreciate your remarks about you are going to do something—although it is not in the province necessarily of this committee—you are going to do something about the summer youth program when you get it do us before the fall. Makes a lot of sense.

The next witness, and I believe they wanted to divide their time each to briefly take a point, is the Hon. Warren Waggy, Mayor of Franklin, West Virginia, accompanied by Gary Wilson, the Coordinator for Economic and Community Development, Pendleton County, West Virginia.

Mayor, Gary, I just want to say, I think that Pendleton County and Franklin represent well a lot of the challenges for us in rural areas where you have a developing fiberoptic network and telecommunications network that accommodates a lot of the new industry, where you have increasing numbers of people from this area as well as others moving there for the benefits of life in Pendleton County, the beauty and the quality of life, yet there is also a lot of things being held back because of infrastructure that either has not been built or infrastructure that is declining. I appreciate you being here.

Gary, you mentioned you had some concerns about formula. I think that is very important to talk about because that will be a major issue in discussions of this committee.

Mayor Waggy, I turn it over to you.

Mayor WAGGY. Thank you. We want to express our appreciation to the Chair and to all the Members of the Subcommittee on Economic Development for the opportunity to express our views and concerns to such an august body.

We have come with so many seemingly unsolvable problems which exist in the small community we represent that any attention to our condition is like a breath of fresh spring air. In our association with other communities and towns, we have determined our town is not peculiar or unique in its problems.

As mayor of Franklin, West Virginia, a most beautiful town located on the central eastern border with the State of Virginia, our way of life can be likened to that of the Shenandoah Valley in Virginia. However, we do not share in that area's prosperity. So close yet so far away.

This condition places an exceptionally severe burden on us. As our young people reach the age of making their own way, they are compelled by jobs to leave for a more affluent way of life. We do not place blame upon them. They are to be commended for display-

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ing such initiative. However, this leads to a decreasing population and places the community challenges on fewer and fewer residents.

We here in West Virginia are fiercely independent. I suspect you realize that. This is borne out by the motto on the seal of our great State. We are willing to do our part in moving this wonderful Nation ahead into a positive economic future as well as any other aspect, provided we can get up to ground zero.

As most communities, we in Franklin, West Virginia are constantly playing catch-up. Governmental agencies impose laws and restrictions without providing resources for their implementation.

Our watershed is part of the head waters for the Potomac River. We continually receive direction to keep this water source clean and pure, and this is good. But we need help with the process. The town of Franklin, West Virginia is in the early beginnings of the improvements of the site of its water supply source. We have received a 60 percent grant from our State with the remaining 40 percent to be bonded by the municipalities.

This is about all the funding which we can service by revenues, yet this will not address transmission and distribution. Some of this piping has been in service more than 50 years. Many days we would gladly donate the mayor's annual $1,500 salary toward the installation of new pipe.

Transportation is essential for economic growth. Our highways are in dire need of improvement, not just for today's requirements but for growth in the future.

Franklin, West Virginia is situated in an area bounded by interstates 81, 64, 79, and 68. However, all are too distant for economical transportation and service.

We have been advised that the root of the Corridor H connection on interstate 79 in West Virginia and 66 at Strasburg, Virginia will be decided this April 1993. This highway is already funded by our Federal Government. Originally, a southern route was determined to be the best and most economical. After environmental pressures were exerted, we were presented with a northern alternative. This northern route is more expensive and will not open central West Virginia to eastern markets.

Perhaps the choice is to be made as to which is the endangered species, man or trout.

Education is paramount to economic development. Job training, whether original or retraining, cannot be denied. School systems with the ultimate in financial resources and a learning atmosphere are a must for future growth. Our youth is our Nation.

Small communities need jobs, jobs with a respectable wage. Jobs will be created when businesses expand and relocate. However, water supply, sanitary sewage disposal, highways, schools, and a labor force with a good work ethic are all part of the elements of a positive economic atmosphere.

We can supply the work force. Our county, Pendleton, of which Franklin is the county seat, is 48 percent national forest. Only a small amount of revenue comes into our treasury from timber sales from this large area, which we understand remain at a loss from the onset. I have since been advised that we also received as a county some in lieu of taxes. However this, along with the amount we received in timber sales, does not add up to the revenues that

result from the loss of the tax base because we have so much national forest.

Franklin, West Virginia does not receive any of this money from the national forest.

We are the fifth largest county in size of 45 in West Virginia, with a population of 9,000. The same attention to services is required as those of densely populated areas. We do not have the tax base to meet these requirements.

What we have given you are just a few of the concerns which surely pertain to most small towns and communities across our Nation, and time is of the essence. Small towns and cities with their extremely low major crime rate, in spite of the constant day-to-day catch-up emergencies, are still wonderful places in which to live. Members of this committee, areas such as mine need jobs, jobs with a respectable wage to offer hope with a short funding pipeline.

This will inspire us to take the initiative and will go a long way to curing many of the economic ills of our great Nation, a Nation unequaled throughout the world, and we look to you for leadership. And if I might add, I could commiserate with Mayor Flynn, except his is on a much grander scale, his problems. The pot holes are all there, and someone told me just recently in our community that the only thing you got out of a pot hole was an echo.

Nevertheless, I feel that as has been previously pointed out, that rural areas take it on the chin and have been doing so for some time. We are willing, more than willing, to do our part. We feel that jobs through the private sector, a jobs credit program, perhaps, those that are much more knowledgeable than I would be able to make suggestions on that, positive suggestions. We had a good program a few years ago which was called revenue sharing. Communities were able to utilize these funds as best they saw the need.

This perhaps might bear looking into again. And I do thank you for this opportunity to point out problems with rural communities. Perhaps I have not pointed this out in my written text. Many of you may wonder just what is the population of Franklin, West Virginia. Well, unless someone has had a youngster or more than one youngster since I left or someone has deceased, we have a population of about 920. And I thank you for your attention.

Mr. WISE. Thank you.

Mr. Wilson had some remarks to supplement.

Mr. WILSON. Thank you.

As the mayor spoke so well, and there is a compelling time requirement, I will abbreviate my remarks.

I would like to thank the Chairman, the Honorable Robert Wise of West Virginia and the committee for allowing me to testify today concerning the needs of rural communities for infrastructure investment by the Federal Government.

I serve as the Economic and Community Development Coordinator for Pendleton County, and in that role, I must attempt to bring firms considering relocation to our community to create employment and also to work to retain those firms that are already employing our citizens.

Presumably, we are one of the communities that Boston is concerned about. One of the greatest challenges facing our effort in

Pendleton to create meaningful labor is a lack of infrastructure investment.

Even though we are near the centers of commerce, possess high-tech telecommunications and have some of the greatest natural beauty anywhere, we have little opportunity for employment. We have high rates of recorded poverty and we have an extremely low per capita income.

We feel a major contributing factor to the poor economic showing of Pendleton County is the lack of infrastructure that we currently suffer. Roads to Pendleton inhibit commercial traffic. The Federal Highway Administration currently lists level of service of many of Pendleton's roads as D and E, where C is the lowest acceptable standard.

Projections to the year 2010 show greater deterioration still. Poor road quality has protected our community from some of the lesser cultural developments in our Nation, but it has also reduced opportunity and employment.

Water availability is also a constraint to developing community. This is a particular irony as the wellspring of the Potomac is partly in Pendleton County. Many pure streams and springs feed water to Washington and the Chesapeake Bay, but this pure water is insufficiently tapped and utilized in Pendleton due to the cost of creating infrastructure.

Neither private industry nor sufficient tax revenues exist to create what in many cases would be the first such investment in infrastructure for water collection and dissemination in several of our communities.

I would like to also go to points that we think might help us in future legislation. We believe that future legislation to build rural communities so that they become successfully contributing economic entities should include a per capita income formula to qualify them for Federal assistance as well as or instead of unemployment.

In many rural communities, agricultural employment for subsistence wages exist but would not meet an objective criteria to be called truly gainful employment. In some cases, this labor is only for subsistence or nonmonetary reimbursement. Individual opportunity is not enhanced by this type of work nor is the economy and economic growth of our country expanded.

As this nonemployment has the tendency to mask unemployment, we would also suggest that legislation include a provision that would allow the federally-assisted community to demonstrate its true unemployment rate by certified analysis survey, by recognized and approved institutions. Rural communities, by their very nature, defy accurate statistical accumulation without the exertion of extra methods of data collection. Future legislation, from our vantage, may benefit also from flexibility in designating appropriate administrative entities.

Some municipalities and counties may be more administratively adept than others, and for those without administrators able to sufficiently allow for resources to meet reporting needs, funds may be better handled by the several State administrations.

Finally, from our view, the best job programs are those that rebuild important public structures, meet specific development needs

within a community by eliminating infrastructure bottlenecks, and put our citizens back to work through private contractors during construction, and allow for employment after the work of building is completed by freeing private initiative. Employment per-cost calculations that we have seen do not factor increased commerce, resulting in secondary employment and savings by reducing the welfare rolls.

When all these are factored in, we believe that jobs programs are an excellent investment in communities unable to spare the expense themselves.

As a result, Pendleton County is a wonderful community with a great potential to serve the metropolitan commercial centers of America at reduced operational costs of business and with the best workers in the Nation. To have a venue which can support American business so that American firms could be more competitive in the global marketplace is to have a location in which it is well worth investing infrastructure capital.

Pendleton and other rural communities are hidden opportunities for our Nation, opportunities that will return revenues on investment and renew futures for our citizens.

Thank you.

Mr. WISE. Thank you very much, Mr. Wilson.

Mayor, I want you to know you are already an impressive advocate. Congresswoman Molinari has asked when we are going to have a field hearing in this region, because coming from New York City she thinks this is an area of the world she should see, and she is absolutely right.

We appreciate that.

The gentleman from Arkansas, Judge Ken Stoner from Phillips County, Arkansas, a State that is on everybody's lips, hearts and minds this week.

Judge STONER. Well, Mr. Chairman, I think everyone knows where Arkansas is now. It is the dot between Oklahoma and Texas.

Thank you, Mr. Chairman, and Members of this Economic Development Subcommittee.

I am Ken Stoner, County Judge from Phillips County, Arkansas. I chair the National Association of Counties Rural Development Subcommittee, and I am testifying today on behalf of the National Association of Counties, the National Association of Development Organizations, and the National Association of Towns and Townships. And all the local government officials join me in thanking you for convening this hearing to address America's urgent need for infrastructure improvements and economic stimulus in rural as well as urban areas.

The common perception of rural America as comprised of farmlands and rolling waves of grain masks the economic misery that plague much of rural America where poverty and unemployment are high and opportunities for job skills, training are restricted, particularly for the less educated who need training the most.

I, for one, have a firsthand experience with rural poverty. Agreed, there has been job growth in the State of Arkansas. What has not been brought to the forefront is that most of the job growth has been in central and western Arkansas. I happen to come from the delta of eastern Arkansas, where two years ago a study was

done on the rural poor, which happened to be the most poverty-stricken area in the United States.

I come from a county of 28,800 population, of which over 11,000 receive food stamps monthly for survival, so you can see that is quite a blow to our tax base. As the Congress and new administration begin working to solve our Nation's economic problems, we do not want you to forget that 62 million, or approximately 25 percent of all Americans live in rural America.

Smaller local governments have fewer resources at their disposal than do major urban areas, yet still must deliver many if not all of the same services to their residents. Unfunded Federal and State mandates further strain local resources, and to bring out a point of that, this October the 9th will mark the day the Subtitle D will come into effect on solid waste.

Many of the rural counties have no rural solid waste pick up as such today. That will have to be instigated at a terrific cost to these rural counties, and we are still wondering where those funds are going to come from.

The fiscal plight of rural areas has not improved over the last year. This week NAC, NATAT, and NADO released a survey that was mailed out to 1,050 rural local government officials and development organizations. With approximately a third responding, 330, we request that a copy of the results of our survey be entered into the record along with our prepared statement.

In this survey, over half, 53 percent, said their government had been forced to reduce funding for infrastructure projects. Of these, 40 percent postponed road and other transportation improvements; 41 percent indicated their governments raised taxes or fees.

To address the economic slump in rural America, 70 percent of the respondents said that infrastructure should be the number one priority. The second priority was economic development, identified by 47 percent. And the third most frequently identified issue, with 18 percent, was solid waste management.

The reason for this response is obvious. More than half the Nation's 3.1 million miles of rural roads are unpaved, and much of the paved portions are in poor shape.

In my county, we have 800 miles of county roads, 700 miles of which are unpaved. The Federal Highway Administration estimates that there are 180,000 deficient bridges; a number of these are located in my county. And the Environmental Protection Agency has calculated that 75 percent of all waste water facilities are in rural communities of fewer than 10,000 persons.

These facilities would come with an estimated $13 billion price tag. And I can be a witness to that in that we have in our county, rural subdivisions with very limited waste water disposal and some areas of our counties that have no drinking water. Infrastructure improvements are needed to provide both an immediate economic stimulus and long-term economic development in rural areas.

According to this survey, there are approximately 3,000 projects in 37 States, totaling $2.8 billion, that are ready to proceed in 90 days. These projects alone would create 60,000 new jobs.

Judge STONER. Federal funds to address these and other infrastructure needs in rural America will provide a foundation for rural

communities to diversify their economies and address vital needs of our citizens.

Mr. Chairman, the National Association of Counties, the National Association of Development Organizations, and the National Association of Towns and Townships are eager to work with you and this subcommittee in developing legislation which would stimulate the economy and foster investment in long-term economic growth of the Nation.

Mr. Chairman, this legislation should, and we anticipate will, be a cornerstone for an effective partnership between Federal, State, and local governments.

Thank you very much.

Mr. WISE. Thank you very much, Judge Stoner.

Our final panel, and then we will begin questions, will be Mr. Louis J. Coletti, the President and Chief Executive Officer of the New York Building Congress Incorporated, of New York City, and Dr. Lawrence Hunter, Vice President and Chief Economist of the United States Chamber of Commerce here in Washington.

Mr. Coletti?

TESTIMONY OF LOUIS J. COLETTI, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEW YORK BUILDING CONGRESS, INC., NEW YORK, NY, AND DR. LAWRENCE A. HUNTER, VICE PRESIDENT AND CHIEF ECONOMIST, U.S. CHAMBER OF COMMERCE, WASHINGTON, DC

Mr. COLETTI. Thank you, Mr. Chairman, Congresswoman Molinari, thank you very much for allowing me to address this very critical issue before the committee this morning.

Much of the discussion has been centering around whether or not we are recovering from a recession. I would like to say to you that New York never participated in a recession. For us it has been a depression.

Let me share with you some of the statistics from New York City. During the last five years the construction industry has lost over 32,000 jobs, over 1,600 architectural and engineering jobs. Combined, we are talking about a loss of some $1.5 billion in wages to those individuals, costing the City of New York $607 million in tax revenue.

Right now over 10 percent of the building trades members are without health care coverage. In the State of New York, one of every six individuals now collecting unemployment insurance is in the construction industry. So we have—recession has never entered into our discussion, it has been a terrible depression.

In terms of specific recommendations and funding an infrastructure program, we basically have two: Number one, we support the full funding of the ISTEA program, using the spend down of the $30 billion in trust funds, and a second program which we would suggest to you needs to be handled in a separate, a block grant concept that was talked about before, using the Community Development Block Grant model. But we would recommend, as Congresswoman Molinari mentioned before, an expansion of that definition of infrastructure to include schools, hospitals, cultural institutions.

Congressman Nadler quite, I think, appropriately talked before about the long-term problem that we have in this Nation, and as

important as the creation of jobs through an infrastructure program is, I think it also provides us with an opportunity to improve the overall quality of our life, to improve our living standards.

Before someone mentioned that the construction industry seems to have a problem with the recruitment of minorities and women, and I think we would all acknowledge that, but since my membership includes both business and labor representatives, let me share with you two particular projects in New York that I think deserve national consideration as part of a program.

Right now in New York City, 35 percent of the construction work force is minority and women. The building trades of New York City has just signed what I believe is a model program with the City School Construction Authority in which it will guarantee that a minimum of 25 percent of the new apprentices in every trade come from the New York City high school system. Those apprentices will then be sent back to the sites of those schools to be built.

We are also a partner in what is called a Regional Alliance for Small Contractors, a public-private partnership that incorporates majority firms, public agencies, and minority firms, in terms of providing and estimating services, accounting services, and helping those firms grow. I think those elements have to be a piece of the kind of infrastructure program we are talking about if we are going to include everyone in America in the opportunities that we believe the construction industry can provide.

Everyone knows that our manufacturing base in this country has significantly declined. There is no better example of that than in New York City. I am sitting here today because I had an opportunity and my parents had an opportunity to work in a manufacturing industry, a blue-collar job, that provided them a middle-class living so I could go to college.

If we have eliminated the manufacturing base by better competition, or for whatever reasons, what hope do poor and minority individuals who are looking for a piece of the American dream hold unless we embrace an infrastructure program?

That is why I think it is so significant that this program be funded and implemented quickly. It provides an opportunity to improve productivity, to improve private investment and create the jobs we really need to provide work opportunities so people can lead a decent living, it allows a number of different public policies to be accomplished all at the same time for what many of us consider to be a minimal investment.

I think you were hearing from local officials today in talking about how do we pay for this program. My colleague sitting next to me, I think, talked about the increase in capital spending in State and local governments throughout the Nation. He is entirely correct. I think one of the reasons we are here today is because those local and State jurisdictions don't have the financial capability anymore to expand our programs.

In New York City for the last eight years our debt service has equaled 20 percent of our general tax revenues. There isn't much more you can expect the City of New York to do and remain financially responsible.

The governor has recently proposed a $25 billion capital improvement program at the same time that he is searching for $2 billion

to fix an operational budget deficit. Compare that with what the Federal infrastructure investment has been over the last decade.

In the 1980s, the proportion of the Federal budget spent on public investment fell to half of that in the 1970s, and one quarter of that spent in the 1950s and 1960s. Between 1980 and 1990, Federal investments in infrastructure were cut in half, with spending falling from, roughly, 5 percent of all Federal spending, to 2.5 percent.

As we become more and more a global economy, let's compare what the United States is doing with some of our international competitors. While we in the United States invest three tenths of 1 percent of our gross domestic product annually in infrastructure, listen to some of the investments that our foreign competitors are making: Japan, 5.7 percent; Italy, 4.8 percent; Germany, 3.7 percent; France, 2.7 percent; Britain, 2 percent, and Canada, 1.8 percent.

I would submit to you that unless we make the difficult decision to invest in infrastructure, we will never be able to compete in a global economy. We embrace the discussion and consideration of an expanded definition of infrastructure. We in New York City, when we take a look back at history, find some of the finest jewels in our city started with Federal dollars during economic depressions—Central Park, the American Museum of Natural History, the Metropolitan Museum of Art and Rockefeller Center, the types of facilities that can increase our living standard and improve our quality of life for everyone.

I would like to now talk a little about structuring the program. After listening to some of the comments from the Members of the committee, I think you are right on target and should be concerned about the local government and State government's ability for implementing projects quickly.

The procurement process in New York City is at best horrific. Without specific direction in any legislation that is drafted, the potential for those projects to remain languished on someone's desk remains great.

I would suggest to the committee that in any language that is developed, that in order to obtain financing, that you would require contracts to be awarded within 120 days of the bill being signed, that you would require local jurisdictions to sustain their 1993 capital budget levels, so as you have made the difficult financial decisions to come forth with a capital program, local officials are not given the opportunity to cut back their own capital investment program.

The concept of this is that it would be a short-term stimulus. In that expanded version of the definition of infrastructure, I am by no means suggesting that a long-term program be established which would provide Federal funding year, after year, after year for those kinds of projects.

I believe it should be short term in nature, that local jurisdictions should not have to try to escape their responsibilities, but if we are trying to redirect our priorities, I think what we need in this Nation is a one quick shot bringing people back to work so that we can feel good about ourselves. The members I represent just don't feel there is any hope, that no one cares for their future,

the future of their children is completely up in the air, and I think when those kinds of feelings are exhibited by people, the entire urban America, the entire country suffers.

We have a great opportunity here to move forward. I am struggling because it is a very emotional issue with me. I have got people in my office every day, from architects who have had their own firms gone bankrupt, to construction workers—my office looks like some of your offices with resumes, with nowhere to go, with no training to move them into another industry, and that is why I feel that this program is so critical.

Let me conclude my remarks by saying there was a question asked before: How do we finance this program? I would respectfully submit to you that the comment I am about to make in concluding my remarks, please don't consider flippant, or irreverent or uncaring about a deficit that I know is a major problem over the long term, but I suggest that we need to redefine our priorities in this country, and in finding the money to pay for these infrastructure projects, I suggest that we direct our efforts to those Federal budget line items that pay for the savings and loan bailout and that pays for foreign aid to other nations.

Mr. Chairman, it is time for us to concentrate on America to move forward with an infrastructure program that will benefit Americans, improve our productivity, and make us the world-class economic power that we have been in the past.

Thank you very much.

Mr. WISE. Thank you, Mr. Coletti.

Our final witness will be Dr. Lawrence Hunter, the Vice President and Chief Economist of the U.S. Chamber of Commerce.

Dr. HUNTER. Thank you, Mr. Chairman.

The hour is late and you have been here a long time. I will try to be brief.

What I wanted to try to do is to give you a short view of what we think the state of the economy is today, to give you an overview of a comprehensive approach to long-term economic growth that we have put together and to speak mainly about the role this committee can play in that package.

For numerous reasons stated in my prepared statement, we believe the current performance of the economy is better than we can expect over the long term, thus our forecast is that economic growth will slow by the second half of 1993, unless policy changes are made to generate more economic activity.

There is a general consensus among economists that over the longer term the economy's real growth potential is around 2.5 percent. This situation contrasts starkly with the entire postwar period when the economy grew on average by about 3.2 percent a year. A growth gap has opened between actual economic performance and historic precedent.

I would refer you to the graph in my prepared statement to explain the details of the growth gap. Long-run real growth of 2.5 percent a year is insufficient to generate needed permanent job growth and is inadequate to increase the real income of the average worker. Practically speaking, real wages cannot be increased without increasing the Nation's capital stock, and more capital requires more investment.

While selected public investment can make some contribution to increasing the Nation's capital stock, the only way economic growth is going to be increased sufficiently to raise real wages is to increase private investment. And the only way to increase private investment is to reward it, not penalize it. This is not trickle-down economics. This is an objective statement of the way free enterprise works.

In summary, we need permanent economic policy reforms in three general areas, most of which, frankly, are outside the jurisdiction of this committee. On the tax side, we need to reduce the cost of capital by, at a minimum, indexing the basis of capital assets for inflation, just the way we index the individual income tax, and we must reform the alternative minimum tax.

On the regulatory front, we need to lower compliance costs and we need to stop the regulatory overkill that is causing the small business credit crunch.

Finally, on the spending side, we must make permanent changes to entitlement programs to reduce Federal spending growth, and to reallocate public spending as President-elect Clinton has advocated, away from current consumption toward public investment.

Now let me turn to what I think the unique role this committee may play in crafting a legislative package of long-run economic growth policies. In our judgment, that role should not be to attempt to enact a public works jobs program with the hope of stimulating aggregate demand and priming the economic pump. Past experience and empirical evidence demonstrate conclusively that governments cannot spend the economy out of stagnation, even if the spending choices are well made, which, of course, they seldom are when the pump priming frenzy sets in.

If government spending per se were stimulative, we would expect some demonstrable effect. After all, Federal spending rose sharply throughout the Bush years. Infrastructure spending increased dramatically.

Since 1989, total spending on infrastructure has increased 40 percent. Budget authority for highway spending is up 31 percent. On airports, up 29 percent; on environmental infrastructure, up 32 percent, and on energy and science infrastructure, up a whopping 85 percent.

Moreover, for the entire decade of the 1980s, when the conventional wisdom would have us believe the Nation's infrastructure crumbled into disrepair, the rate of growth of public construction actually exceeded the rate of growth in nonresidential fixed investment.

Let me translate that from economist jargon. In other words, governments increased construction spending faster during the 1980s than did private businesses. Seventy-one percent of all new jobs recorded by the Labor Department's establishment survey between December 1988 and December 1992, were State, local, and Federal Government jobs.

In effect, we have had one of the biggest public works programs in history during the last four years, yet real gross domestic product growth averaged a dismal six-tenths of 1 percent a year, and private job growth has been stagnant until recently.

You have heard the findings of Dr. Holtz-Eakin. We find his conclusions compelling.

I would also refer you to the work of economist John Tatom for additional empirical work on this question of the macro effect of public sector investment spending on infrastructure. There are, and I want to emphasize this, there are a number of pressing specific problems, such as you have heard much about this morning, that could be alleviated through careful increases in infrastructure outlays.

The role for this committee in reviving economic growth in the country is important. For many such problems, funds already have been levied and earmarked, but is unreachable as paper trust funds within the Federal budget.

The possible exception to this general rule may be the Highway Trust Fund. Although there is currently an $11.4 billion surplus in the fund, GAO reports that by fiscal year 1999, the trust fund will fall some $6 billion short of authorizations.

The projected shortfall occurs precisely because highway spending has been accelerated and because slow economic growth has depressed revenue growth. Indeed, the trust fund illustrates the more general point, to keep revenues flowing into the government, the economy must be growing. Even under GAO's worst-case scenario, the Highway Trust Fund is still some seven years away from their definition of insolvency. Should economic growth and gas tax revenues pick up in the interim, the problem by and large disappears.

If Congress decides on efficiency grounds that more spending on infrastructure is required immediately than is available in the trust funds, it should reallocate current spending away from consumption and into new well-thought-out projects as suggested by the incoming Clinton administration. Tapping general revenues to reprioritize spending away from consumption and toward infrastructure spending would, in effect, recoup the two-and-a-half cents of the five-cent gasoline tax increase diverted to general deficit reduction as part of the 1990 budget agreement.

Raising taxes, even earmarked taxes, to increase infrastructure spending would, in our judgment, be a mistake. An even bigger mistake would be to increase the gasoline tax to fuel noninfrastructure spending.

One hears disturbing rumblings about raising the gasoline tax to pay for so-called long-term public investments in all manner of nontransportation-related activities. This would be an enormous mistake, compounding errors of the past.

When setting priorities, the problem is one of separating real investment spending needs from old-fashioned pork, as many have pointed out this morning. Economist Robert Barro, for example, finds that investment in public infrastructure offers reasonable but not extraordinary rates of return.

The highest returns are derived from maintenance of existing capital, with rates of return measured up to 40 percent a year, in some instances, and from highway projects in congested areas, with rates of return ranging in the 10- to 20-percent range annually. In other words, fixing potholes is a very good idea.

Bullet trains and other advanced technology in the cities are less beneficial. Reallocating money currently being spent on low-return

public projects and on public consumption back toward infrastructure projects, with a higher rate of return, makes eminent sense. There are no efficiency gains, however, to be had by diverting more resources out of the private sector into public infrastructure spending.

The policy process has become fixated on the Federal Budget Deficit, and that fixation is reinforced by an institutionalized bias that pretends tax rate cuts on capital have no significant positive effect on investment and that capital formation is unaffected by tax policy and therefore that every cut in tax rates produces long-run revenue losses. This fixation has produced an inordinate fear of change and, in our judgment, a bipartisan policy paralysis that is symptomatic almost of a collective neurosis that is unwarranted by the facts.

We have become slaves to static revenue estimators who make projections four and five years into the future which are known to be inaccurate the moment they are put on paper, and yet produce gridlock, producing the kinds of changes, especially in the tax area, that are widely acknowledged to be undesirable. It simply makes no sense for Americans to endure unfair and economically-damaging tax policy, for example, because of a fear that Congress may prove incapable of taking responsible action sometime in the future.

If the long-run benefits and, hence, the increased revenues from policy changes such as indexing the basis of capital assets don't materialize, it may be necessary to raise taxes again a few years from now, but we won't know until we get there. One thing we know for sure, it would be foolish to forego the certain and immediate benefits of policies such as indexing because of an anxiety that the resulting economic improvements may not prove permanent, especially when any revenue shortfall is so directly amenable to immediate congressional remedy that one develops. It is a calculated risk we should be willing to take.

In closing, Mr. Chairman, I would just express our agreement with much of what we have heard in the last several months. It is time for a change, it is time to use a little common sense. All we are saying is give growth a chance.

Thank you.

Mr. WISE. Thank you very much, Dr. Hunter.

I want to thank all the witnesses both for your testimony and your patience. I think it is fruitful to have everyone in front of the committee in this manner, and I look forward to a good exchange.

I now turn to the full committee Chair, Mr. Mineta.

The CHAIR. Thank you very much, Mr. Chairman.

I would like to thank the panel very much for their presentations. They were really good, all across the board.

One question, though, or one thing I would like to correct. I am sorry that Ms. Reynolds is not here. In her testimony, she said that full funding of ISTEA would be about $2.5 billion. Our estimates are that it would take $4 billion to fully fund ISTEA, based at least on what the Appropriations Committee has told us.

Just as Dr. Eisner has said there is a confusion of terms or mixing of terms, it seems I am also starting to hear things like economic stimulus, economic development, productivity gains and pub-

lic works spending as if somehow they are all interchangeable, and I think somewhere we are going to have to start not redefining but at least trying to maybe make a little more precise what is intended as these terms are being used.

What I would like to turn to is something that goes off these charts and one that appeared in several of the statements before us.

First of all, I note that Wharton predicts that the unemployment rate for calendar year 1993 will be 7 percent. DRI for calendar year 1993 predicts that it will be 7.1. Today we know that it stands at 7.3 percent, so they obviously don't see much improvement in the unemployment picture between now and the end of calendar year 1993.

Let me ask about the effect that that kind of unemployment has on the overall economy. First of all, consumer spending, as I see it, represents about two-thirds of the overall economy, so changes in consumer spending patterns can have an enormous impact on the overall growth of the economy, and of course consumer confidence is a very big part of what drives spending patterns.

Now, when the average American looks around and sees a weak job market that shows no signs of fundamentally improving, how big a factor is that in depressing consumer confidence?

Perhaps you could compare the influence of that factor on consumer confidence and spending to other factors such as a board of economists announcing that the recession officially ended 22 months ago, or the President announcing that recovery is just around the corner. But I guess what I am getting at is that when consumers see a job market around them that continues to be weak, they pull back and spend less than they might otherwise. That in turn threatens to stall what little growth we have in this economy. Now is that a risk which should be concerning us?

Dr. EISNER. Yes, I think it should. In fact, it is not just what official figures have been put out. The ordinary person knows about the unemployment, whatever the Bureau of Labor Statistics puts out, and they lose jobs, they see friends losing jobs, and that affects their consumer spending.

Actually, Dr. Faux made an excellent point, which is frequently overlooked, about what has happened on withholding taxes in this last year. It is not quite true that Mr. Bush did nothing. He didn't do enough, but he did do that jiggling, and that is going to come home to make things even worse for consumer spending when people find they don't get tax refunds in April, so that should be realized and taken into account.

The forecasts on unemployment for everybody are dismal, and that is clearly—that is a part of the basis for the dismal deficit forecast as people look at it, but that is exactly the reason not to say that we can't have a stimulus package. It is exactly the reason to say we should have one.

Mr. FAUX. If you look at the improved numbers over the last six months, it is quite clear that most of that has come from consumers buying more than either their incomes or their job situations would suggest they should.

The CHAIR. So they are dipping into savings?

Mr. FAUX. They are dipping do savings. They are dissaving, that is they are borrowing money. You can only continue that for so long unless the job growth underneath supports it. And if you look at those projections, clearly most forecasters don't think it will.

Let me stress something I said before. It is very important for us not to make policy on the basis of one base-line projection, whether it is from OMB or CBO, or wherever it is. You really do have to look at the risk, the risk of what happens if it goes well, what happens if it doesn't go very well. And I think if you look at it like that, it is clear that right now some sort of stimulus, even if the optimists are right, will simply accelerate the trend towards a better employment picture. On the other hand, if the pessimists are right, not having a stimulus could put us back in the soup.

I would like to make one other point about jobs. In addition to the slow job growth that we face, we may be facing additional job hits on the American labor force, one from additional defense cuts, another from cuts in health care.

It is important to understand that if we solve our health care problem and we cap this extraordinary rate of growth in health care, we are going to have an additional job problem in this country because the spending that we do on health care is largely represented by jobs. That is one of the fastest-growing sectors of jobs in the country. And so we are faced with a situation in health care, for example, and in defense, where if we take advantage of the opportunities for making some important changes in policies, we are going to have a bigger jobs problems. Again, the point is that this is not a short-term issue. We need a stimulus that is long term in character.

The CHAIR. Dr. Faux, if I might pick up on that point, though, one of the problems that I might see, if I can divert on this health issue, it seems to me, health is one of the areas where as we improve it the costs go up. Five years ago we didn't have the MRI, 10 years ago, 20 years ago we didn't have the CAT scan, and yet those are improvements in medical science, and in the delivery of medical services—I am a lung cancer victim, and had an operation on that score, and have utilized since then the technology of MRI, but it is also adding to the cost of medicine, and so—and then I suppose the other part of it is the need for the additional tests because the medical profession is practicing—what do they call it—defensive medicine, so just to inject that one point.

Mr. FAUX. My point was not a call for not spending in the health sector what we need to spend. My point is simply that to the extent that we cut out the so-called inefficiencies, we will also be cutting out jobs.

The CHAIR. Go ahead, doctor.

Dr. BERGMANN. I wanted to say that one of the things that is really depressing to the public is to read about all these layoffs. One big source of layoffs has been State and local governments. Those are very well-publicized, and they are the largest. I don't think we have finished under present circumstances with those layoffs, and I think that underlines the necessity of getting some help to States and localities apart from construction projects. I think we ought to begin——

The CHAIR. Dr. Bergmann, if a part of this whole exercise is not only to create jobs but also to get a second hit, and that is productivity benefits, it seems to me if we are going to produce jobs, we have leaf rakers, but then we don't have any long-term benefits that come from that spending, and I am wondering whether or not we are starting to mix again apples and oranges in our efforts here of looking at long- and short-term investments in infrastructure and transportation.

Ms. BERGMANN. I think there may be some leaf rakers who ought to be gotten rid of, just as there are some paper pushers in the health industry who ought to be accommodated in other industries, but I think that some of the layoffs, many of the layoffs of public employees that we have been seeing, are layoffs of people who have been doing important work—mental health professionals, people who deal with the homeless, and some school activities, and so on.

The CHAIR. One of the things that I think Mr. Coletti raised is a good issue. We have got to maintain this, what I call "the maintenance of effort" so that we don't become the substitute for local dollars being diverted to other things. So I think there has got to be a maintenance of effort of some nature.

The other thing I would like to mention, one of the things I have done, at least in my conversations with the President-elect, is to say that there are criteria, the project has to go to bid within 90 days, that the EIR–EIS has to have been completed, no property acquisition is going to be allowed under this and no pending lawsuits, so that we can make sure that these contracts are let, probably not the multi-million dollar type projects—smaller jobs, surface, resurfacing projects, short sewer water-pipe connection repairs, et cetera, rehabilitation, again, whether it is in a rural area or in an urban setting, but things that will be short term in nature, that will create jobs and at the same time we will have some long-term benefits—because if you do the pothole job and you do it correctly, we still have long-term benefits in terms of productivity yield from that investment. So it seems to me we can do something, but I don't want to—I experienced when I was Mayor of San Jose watching what New York went through, and what I call the "Beam shuffle," I think it was referred to as the Beam shuffle. I don't think we want to go through that again, so I think there has to be some kind of maintenance of effort, but at the same time, block grants, make it easier for localities to say, yeah, I want the money out there for these kind of projects and also make sure that they aren't substituting their dollars.

You were about to comment, Dr. Holtz-Eakin.

Dr. HOLTZ-EAKIN. I think I would like to put some perspective on the observations that have been made. A lot of the discussion is focused on the nature of forecasts, and we know how tenuous those forecasts can be. I think it is useful to remind everybody that if you look at past recoveries in the United States and most Western economies, they are typically, investment-led recoveries, not consumption led.

Consumer spending is a big fraction of our economy, but doesn't change enough to typically pull us out of recession.

The CHAIR. Isn't this investment?

Dr. HOLTZ-EAKIN. The second point is that you want to have a recovery that is investment-led, to have the best beneficial long-run effects; you would want to pick the most productive investments. And the point I tried to stress in my oral remarks, and the things I have studied in my written remarks suggest that however attractive infrastructure investments might be at some conceptual level, and I think the attraction is very real, when you look at the numbers, private investments by small firms, large corporations in the U.S. dominate the typical infrastructure investment. This need not always be true, but from a national perspective that seems to be the way they stack up. This suggests that if you have to prioritize—

The CHAIR. If we can use public dollars to leverage on the private side as well—let's say if we do a project that improves the downtown streets—Will a Turner Construction Company in New York decide, yes, I am going to build a building, or if we put money into extension of a transit line, will that create apartment houses or other retail and commercial buildings around that subway stop?

Dr. HOLTZ-EAKIN. I would like to say three things about that very quickly. The first is, I think that is exactly the right way to think about the question. In doing so, you have to be careful that a lot of those perceived benefits aren't just relocations.

You have heard a lot of talk today about firms skipping State to State. From a national perspective, we gain nothing from relocations. You would like projects that provide additional benefits to the Nation as a whole. They are difficult to identify in the sense that a lot of careful work has to be done—and I would just urge everyone involved in the policy process to rely on the experts in the field, to really identify the key projects.

From a stimulus point of view, that is very time consuming—and I suggest while those are worthwhile projects, you would have to worry a little bit about getting them on track fast enough to be the kinds of projects to spend our money on.

Mr. COLETTI. Mr. Chairman, if I could, I fully agree with what you said about targeting the small projects that would provide rehabilitation, because I think during the conversation and the testimony today, I heard some confusion over new infrastructure systems, and I don't think that anyone is looking to develop brand new systems. I think there should be a concentration on what we already have in order to build those support mechanisms.

I have to disagree with what my colleague just said about business relocations. On the front page of last week's Crain's New York Business was the largest publishing company in New York saying it was moving to another State because of the crumbling infrastructure. Now, whether or not they stay, if we have the capability of fixing that infrastructure problem, and in an independent judgment that firm leaves, we now have a tool to recruit another firm. Without fixing that infrastructure, we are not going to have the ability to recruit anyone, and we have just got another desolate building. So I think the argument that, well, if it is going to go to projects that move from one State to another, that isn't necessarily the kind of investment we want to focus on, I am not sure I would agree with that.

There are many factors in why businesses make a determination whether they are going to be in one particular location or another, but it doesn't obviate the necessity to deal with the crumbling infrastructure problem.

The CHAIR. Also, if I might, Dr. Hunter, I would like to ask you about your statement on page 18. If Congress decides on efficiency grounds that more spending on infrastructure is required immediately than is available in the trust funds, it should reallocate current spending away from consumption, and into new, well-thought-out projects, as suggested by the incoming Clinton administration. Could I ask, what is your thought there, because I usually think of our trust fund dollars going mostly into capital investment type of projects?

Dr. HUNTER. Perhaps I wasn't clear in making that statement. The suggestion was not that you reallocate current spending from funds coming out of the trust fund, but in the overall Federal budget. This is an ideal opportunity, given the magnitude of the problems, to improve spending efficiency. It presents this committee, in particular, with a great opportunity to work with an incoming administration which appreciates there is a need to reprioritize Federal spending.

We have an enormous Federal budget that in our mind is bloated overall, yet certain segments within that budget are starved. And what I was trying to suggest is that this committee has a unique opportunity. In other words, we don't have to emulate a situation that pits one State against another in the competition for private business. We shouldn't have to pit the private sector against the public sector in competition for investment capital.

The competition, I think, that needs to go on—and I believe you started that process today—is a competition within the Federal budget, between the kinds of activities that this committee deals with, if prudently chosen, and other spending in the Federal budget that, frankly, can stand to be pared back significantly.

It won't be easy. It will be a struggle of monumental magnitude, but I think we are at the stage where that is what we need to do. I think we have the opportunity to do it at this point in time.

The CHAIR. I want to get that two-and-a-half cents back into the Highway Trust Fund. Right now it is committed to 1996, and I would like to, frankly, for the fiscal year that we will be working on, 1994, to change that, to be able to bring that two-and-a-half cents back into the trust fund.

Dr. HUNTER. It is an ideal time, I think, to find offsetting reductions from the baseline, mind you, not real reductions, but from the baseline that could be reprioritized and for you to claim back that two-and-a-half cents. I think that would be a very good start.

Dr. EISNER. I might just insist, this is really not a time to take money away from other places. It is good to reduce waste but, as Dr. Faux pointed out, reducing government expenditures is going to take away jobs. If you have slack resources, you want to make sure they are used.

One of the Members of the committee spoke about limited Federal resources. The issue is not Federal resources. The issue is the Nation's resources. They are not being used now. It is the task of

the Federal Government to try to see to it that all of the Nation's resources are used.

We talk about government consumption. I have often been puzzled by that term. The government doesn't really consume much of anything by the definition of consumption. If the reference is to reduce people's ability to consume by taking away their social security benefits or something of the like, I doubt that is wise.

I might again suggest, I shouldn't try to pose as a politician, but one way to kill any kind of program for public investment is to say we are going to invest by taxing people more, by taking away their social security or the like. That is not in the cards, it is not necessary, and I think that should be avoided.

The public investment should stand on its own as desirable, one, to give jobs now, and, two, to add to productivity in the future. And I said in my statement earlier, we shouldn't muddy the waters. I am afraid, unfortunately, we are so much the victims of our past prejudices and inherited thinking that we keep doing that.

The CHAIR. In a speech yesterday at the Akron Roundtable, I said I wanted to make two banners, one to hang in the House of Representatives chambers and the other in the chambers of the U.S. Senate. It would simply say: "It is the economy, stupid."

Dr. EISNER. Exactly.

The CHAIR. Let me thank all of you to take the time to be before us. I know as the development of this package of whatever we might be doing, I know that we will be in further consultation with all of you, and I appreciate the time that you have been with us.

Again, I want to thank Congressman Wise and Congresswoman Molinari for their leadership in putting this hearing together.

Thank you.

Mr. WISE. We want to thank you, Mr. Chairman, because without you there is no hearing, and we appreciate the support we have gotten to do this.

Let me—Dr. Eisner, I think the implication of your position, I just want to make sure I understand it, is that the deficit is not in and of itself important except as measured by what proportion of the GNP it is. Is that a fair statement?

Dr. EISNER. Well, that is partially important, yes. We have to know how to measure it in relation to what, as we did with anything else. It looks like a huge number. The first way to measure it is, what percentage it is of the GNP. The second thing to say is, how much is it increasing the debt. Is it increasing the debt more than GNP? The third thing to look at is, what you are using the deficit for, and it would be wise, by the way, to have a capital budget so we can distinguish between those expenditures for current needs or current benefits and those expenditures of the government that are going to investment. And I hope the investment would be broadly defined.

Mr. WISE. In that regard, then, is it in your opinion a dubious exercise to be involved in absolute numbers in saying that by such and such a time, Ross Perot I think predicted that the budget would be balanced in four years; Governor Clinton during the campaign said the deficit would be reduced by half from the absolute numbers that now I am hearing the figures bandied about of $145

billion over a four-year period. Is that the target to shoot for, what percentage of GNP, or how fast is it increasing?

Dr. EISNER. The real target would be to have that deficit which is the most compatible with the most prosperous economy. I would say over the long run, probably a reasonable rule of thumb is to keep the debt GNP ratio growing so that the debt-GNP rates stay about the way it is. That is a rough rule of thumb. I think President-elect Clinton had a program which made a lot of sense if it were looked at, in that his deficit reduction projections, it is fair to say, were based very largely on the economic growth of the economy that he anticipated.

And that is the way it should be, and I would hope he would stick to a program that involves only modest deficit reduction, no more than he anticipated in the campaign, over and above the deficit reduction that will come from proper growth.

Mr. FAUX. Could I just add something to that? Mr. Chairman, economic growth is the important thing. If you look at the difference between deficit projections today and what they were when President-elect Clinton made his promise to cut the deficit in half, you find that most of the difference, most of the worsening of the deficit, is because of slower growth projections. That tells you that the deficit is largely a function of slow growth.

The point here is that we are not going to accelerate growth unless we make those investments. The private sector, quite frankly, is not investing enough to employ of our people. We have seen that on the chart that you gave. Therefore, it makes perfect sense for the public sector at this point to be investing in those things we need anyway. We need these investments anyway.

And this is precisely the time to do it, when capital markets are slack. The idea that, well, let us wait for these public investments until the economy improves is really nonsense. First, we will never get there. Second, the time for the public sector to be borrowing money for long-term investments, which is perfectly sensible, is when the private sector is not.

And the private sector is not borrowing now, so this is the ideal time. If you could conceive of yourself as the comptroller of a corporation looking at its long-term investment program, one of the considerations for borrowing investment would be, are the financial market conditions right?

Today, the financial market conditions are right for the Federal Government to be borrowing to be making its long-term investments. If we wait until we get back to full capacity, then you will be crowding out.

So today is the best time to move.

Mr. COLETTI. Mr. Chairman, if I can, as a follow-up to that, in terms of the product you receive as a result of the recession, we did a study that showed that New York City projects over the last two years were being built as a price reduction of anywhere between 15 and 40 percent of the original engineers' cost estimates. So in terms of before we were talking about bigger bang for the buck, now is the time to get the best product and the most number of projects out of a limited amount of dollars.

Dr. HUNTER. Mr. Chairman, if I could follow up on the question of growth and go back to what Jeff Faux was saying, I find myself

in surprising agreement with much of what Jeff is saying. Probably where we disagree is on the details of how we would generate economic growth. But this is a significant point: that you are seeing broad agreement on the issue of growth.

In my prepared statement I suggested there are two potential organizing principles that economic policy can be organized around. One is deficit reduction, and we tried that for four years. It was a failure. It was a political failure and it was an economic failure.

The other is economic growth. And I believe Robert Kuttner pointed out recently that the paradox of deficits is the more you try to target them directly, the more elusive the goal becomes. So I think Jeff is right on the mark. If we keep our eye on growth, if the organizing principle of economic policy is growth, then deficits will not magically cure themselves, but they will come under more control.

It is sort of like safety. You don't make safety the organizing principle of your life, otherwise you wouldn't go out of the house. It is merely a constraint to your actions. As long as it is a constraint, you can be productive and lead a happy life.

The problem is making sure that it remains a constraint on Congress once we come to the conclusion that growth, not deficits, is the organizing principle.

Mr. WISE. Dr. Hunter, I think you should know during your remarks, my full committee chairman turned to me and said, Wise, that is your job now.

Dr. Hunter, continuing in that vein, in terms of unemployment for the next year, do you project that the figures are going to remain just about the same as what we are seeing over here, 7 to 7.5 percent?

Dr. HUNTER. Yes, we have unemployment sitting at about 7.4 percent.

Mr. WISE. That is for the next year?

Dr. HUNTER. Yes.

Mr. WISE. Is there general concurrence on that amongst of economists?

Dr. FAUX. Give or take a tenth here or there, yes.

Mr. EISNER. I said the OMB in its forecast of the deficit used the blue chip forecaster figure of 7.2 percent for 1993. And I go back to Jeff Faux's wise remark. The question is what risk you are going to run, and none of us will guarantee you what the figure is going to be, but there is no reason to think the figure is going to be lower this time.

Mr. WISE. So on a—continuing along this direction, then we are going to run about 7, 7.5 percent, which doesn't hold a lot of hope out to a lot of people. The question then becomes what is necessary to begin to move that.

Dr. Hunter, I might turn to you but then others as well—actually, let me throw this open to anyone. The statement has been made, all right, the general proposal has been perhaps $20 billion a year in an economic stimulus package over a several year period, and some have said, well, $20 billion a year in relation to a $6 trillion economy really doesn't have much impact, you get a lot more bang for the buck simply by the fact that there is I believe $130

billion plus from refinancing homes, and that has put money into people's pockets.

Would anyone care to comment on whether you should look at a $20 billion a year investment as simply $20 billion a year, or whether there is a multiple effect to that? Who wants to jump in?

Dr. EISNER. There is some multiple effect. I would say the $20 billion is not tremendous, but you can create a significant number of jobs. You can quickly estimate it. Just roughly, if the—assuming from that initial $20 billion you have another $20 billion, you have that much more. As I indicated in my prepared statement, I think we should have—assume a broader stimulus package than that which would include special incentives to purchase new houses and private investment. I would not shrug off the $20 billion. But I think it is not enough.

Mr. FAUX. I think the $20 billion needs to be seen as part of a package. I don't think anyone would say we are going to cure our growth problems simply with a public infrastructure investment program. But clearly it has got to be part of it. Not only do you get a multiplier on the demand side; I think it is clear you get a supply side effect with productivity. There is some disagreement here on how much it is, but certainly you get more than zero.

And finally I think you get an increase in consumer confidence. It has been talked about several times in several different ways here, but seeing things move finally, seeing projects going, seeing a sense that people are back to work again, has its own multiplier. It is not a silver bullet that is going to cure all our problems, but certainly it has got to be part of the package.

Dr. HOLTZ-EAKIN. I would like to comment on that as well. I think you really want to avoid thinking about this as a short-term problem. I think there is a consensus here that this is a long-term problem. And asking yourself the question about whether $20 billion over the next five years is the right number is really the wrong way to ask it. ISTEA has been funded over the last five years, and as has been pointed out, we saw very little out of it.

The problem is long-term productivity growth; the problem is inadequate investment in the United States. To solve the long-term problem, we have to consume less and save more. When we do that, we have to put the savings in the most productive locations. There is a lot of disagreement on where those locations are.

I would just like to point out that businesses aren't investing and that is part of the problem, too. You can't look at this as one-sided. If the public investment does induce private business investment, that is good. But that is not the only way to do that. So if you want to look at stimulus packages that are also consistent with long-term growth, you have to start with private business. On average private investment is more productive than public investments. If you get to some valuable public projects, I have no disagreement with that. But let's start with the most important thing.

Dr. HUNTER. I wholeheartedly agree. I would return to the basic proposition that the real income of the average worker is ultimately dependent upon the capital labor ratio. If you look at data since the mid-1950s there is a very close and tight relationship between the variation in real wage rates and the capital-labor ratio.

So in the long run to get real wages up, we are going to have to increase that ratio again primarily in the private sector.

Jobs and real wages are somewhat like the deficit in that the more you go directly at them, the more elusive they become sometimes. Small changes in the tax on capital have dramatic changes on the behavior of investment patterns. And ultimately those investment patterns are going to determine whether or not jobs are created.

Finally, the one thing we haven't touched upon, although someone alluded to the issue of continuing layoffs, I agree we will continue to see the same type of layoffs we have seen for the last decade. Layoffs will continue as large companies continue to restructure.

The difference this time around is while we had that restructuring throughout the 1980s, we had a dynamic economy in which small business, including very small businesses, created an enormous number of jobs. That is what is lacking this time. Part of the reason we don't have this vibrant entrepreneurial activity is the tax rate on capital.

Another large component I alluded to is the credit crunch on small businesses. I think we now have a perspective on the credit crunch, which is continuing. It is very difficult if not impossible for many small business people to get the kind of credit they need to begin a business and to expand a business.

Dr. EISNER. I tried to point out that real wages depend not only on private capital but public capital and education, on research. Dr. Holtz-Eakin had a paper I saw two or three years ago in which he estimated what we call the production function. He found a negative return to private capital. I don't believe that, and I don't think he does either.

But let's not forget then that what makes a worker productive is how smart he is, how trained he is, how educated he is and what he has to work with. A trucker can get higher real wages if he can deliver his load more quickly on better highways. And that follows quite generally.

Mr. WISE. I think what all of you are saying, what I hear is some common threads and some disparities too, but one of the common threads is the need to look at this as—well, it is being billed as a short-term economic stimulus. It really has to be part of a long-term plan. Certainly my approach is that jobs are important. But the jobs, once they are finished, must have yielded something that results in the public good, must have yielded an investment, something tangible, whether it be a road that is renovated, whether it is a school building that has been built, whether it is an airport that has been extended, something that actually adds to the public's infrastructure.

And so perhaps for purposes of discussion in the future, we have got to separate out and make sure this is not talk of a short-term package, but recognition that a long-term package has to be rolled into that. That is I think crucial.

The other thing that is very important to me is the idea that some of you put forward in this discussion, distinguish between consumption and investment. I would like to invite you all back for the capital investment or capital budgeting hearings we hope to

hold as this subcommittee seeks to identify means of financing infrastructure.

I think it is crazy the way we are going about it right now, but that is a subject for another day. I turn to Mr. Shuster.

Mr. SHUSTER. Thank you very much, Mr. Chairman. Dr. Hunter, I think before you got here today, I, in an earlier statement, emphasized my belief that our focus should really be on rebuilding the necessary infrastructure and the long-term implications of that as opposed to any short-term stimulus simply being a by-product of the longer term effort. In regard to that, the question was asked, how do we pay for this, and somebody on the panel recommended the gas tax as a way of doing this.

And I have great difficulty with that. First of all, if we are going to have a $20 billion program and we are going to raise a gas tax to raise $20 billion, we are going to take $20 billion out of the pockets of the American people to pay for a $20 billion infrastructure, I am not sure I understand what the net economic stimulus is.

Beyond that, we are talking about a very regressive tax. Beyond that, we are talking about a tax that is very unfair to rural America, because the average person in rural America drives three times as many miles as the average city person, plus the person in rural America doesn't have public transportation—a $7 billion metro system as we have here in Washington, and of course you understand, when we spend $7 billion in Washington, D.C., that is good government, but if we spend that money out in rural America, that is pork barrel. So there is fundamental difference there as well.

In fact, something like 65 percent of all transportation is work-related, and therefore increasing the gas tax becomes a cost of production. So you take all of these things I have just run through here, this litany, and it brings me to the question, why is it a good idea to raise the gas tax to reduce the deficit?

Dr. EISNER. I think it is a terrible idea to raise it to reduce the deficit. You might well raise it to finance reductions of other taxes, which would partly meet your concern. If you reduce payroll taxes, people traveling to work at least would have that corresponding reduction. The argument, of course, for taxing gasoline is that there are what we call external costs, whether it is to protect our investments in oil supplies from the Middle East or for environmental protection and the like.

But to raise taxes to reduce the deficit is just going to slow down the economy, and as you say, as you indicate, you will to a considerable extent simply wipe out the positive effects of the $20 billion spending by taking income away from people, and they will be able to spend less, as people seem to forget.

Mr. SHUSTER. Any other comments?

Mr. FAUX. If I could just make one. I think it is important, as we look at the problem over the long term, to recognize there is nothing wrong, as a matter of fact there is a benefit, with the government borrowing money for long-term investment just as a corporation does, just as a business does, just as anyone does.

Unless you are doing that when you have unemployed resources, you are not getting the stimulus. And it goes to the comment you just made.

Mr. SHUSTER. What about the other side of that? If it is right to borrow money for long-term investment, and I understand that, then is it equally wrong to borrow money for short-term consumption expenditure, public?

Mr. FAUX. Yes, I think we should be operating in general at a balance on the operating side, and be willing to run a deficit for long-term investments. But the point that you made I think is very important. We ought to stress it. As long as we are operating below full employment, if you finance investment by taking $20 billion from here, taking it out of the economy, and then putting it back into the economy, as Dr. Eisner says, you get no stimulus and you are right back where you started from.

Dr. HOLTZ-EAKIN. I would like to pick up on that. I think you have to be just a little more skeptical than has been laid out so far. If you borrow $20 billion, or any number that you care to choose, you have to rely on your Federal Reserve not to have interest rates rise and choke off a very important economic activity like private investment.

The Federal Reserve has pushed as hard as it can over the last several years to lower interest rates. Despite that, long-term interest rates are not in fact very low; an indication that capital is not particularly plentiful, in fact is relatively scarce. All that suggests that borrowing will in fact knock out some other activities that we value highly, and you ought to count these costs as part of your calculation.

Dr. EISNER. I would differ with some of that. In the current situation there is little evidence that more borrowing will raise interest rates, although I agree that you should expect the Federal Reserve to cooperate, and that is something we haven't touched on. I hope the Congress and the administration——

Mr. SHUSTER. Alan Greenspan has already said he will cooperate.

Dr. EISNER. I don't think the Fed has been sufficiently accommodating over the recent years.

Mr. SHUSTER. Dr. Hunter?

Dr. HUNTER. Not only do you have an economic question, you have a political problem. While I would go 90 percent of the way in agreeing with the specific comments that have been made about increasing the deficit today, once Congress goes down that path, once Congress agrees that we are going to have to increase the deficit, it becomes a political problem.

I referred earlier to the problem of constraints. I think the nice situation you find yourself in is you don't have to confront that issue, because any way you go, you are going to have to take resources from one place to reallocate them if you are going to increase infrastructure spending.

You are going to have to borrow funds and take them out of the credit market. Or you are going to have to tax them and take them out of people's productive income. What you are going to do is to reallocate them out of other areas in the budget. Out of those three, the least economically damaging and the safest political route is clearly to reallocate money from other portions of the federal budget.

Mr. SHUSTER. You said it is the safest political route?

Dr. HUNTER. For the country. Perhaps not for individual Members of Congress.

Ms. MOLINARI. That is an important clarification.

Dr. EISNER. That is also the worst economic route. He said you have to take resources. The fundamental point that I and so many others have been trying to tell you is we have idle resources now. We heard about the building trades, we heard about idle construction crews. You have to look at real resources. If we did have full employment, then there would be a real question, what resources are you going to take from?

But you don't have to tell people to consume less now in order to have more investment. They can consume more and invest more. The only way is to get full utilization for your resources. Then you have a problem of what else you have to cut, and it would be bad politics to tell people to tighten their belts now, and it is bad economics.

Dr. HOLTZ-EAKIN. That analysis is one which is fundamentally oriented to very short-term decision making. Public investments are long-term decisions. They ought to be taken from a long-term perspective. And you ought to consider in the long term how you are shifting resources from one sector of the economy to another. I think he is exactly right in the decision making.

Mr. FAUX. A famous economist once said, in the long term we are all dead. The fact is we have been told not to do anything in the short term for years now. Meanwhile because we haven't responded to the short-term problem, our longer term prcblem becomes worse. Let me give you one brief example.

Because we have low economic growth, when profits are not up, when companies feels their backs are against the wall, the first thing that goes is their long-term investment in research and development. So because we have got a short-term problem, because we have got high unemployment, sales are low, growth is low, the private sector is not investing in the long term. You just can't address these things as if the long term starts in January 1995 and the short term is now. We are in the long term right now. And it is not such a great place to be.

Mr. COLETTI. If I may, there is an old saying that says, when you are unemployed, there is a recession, when I am unemployed, there is a depression. This discussion on short and long term, it is obvious there is a need to do something short term. I don't think that mitigates the requirement to approach this on a long-term basis and take a look on how we are going to finance the capital budget.

And if that requires an increase in the deficit when we begin to weigh those factors as to what is more important, I respectfully suggest to you that it is more important to provide Americans in this country the ability to find a job, have some dignity, pay the mortgage and send their kids to college and have some hope for the future.

Dr. HOLTZ-EAKIN. Let me say what I hope are my last words on the topic. All of the arguments about doing something in the short term, whatever their merit, have nothing particularly to do with public infrastructure. The need to move on the short term is not necessarily a need to move in this dimension. There are lots of ways to help people in the short term.

These investment decisions will be with us for a long, long time. There are 120 year old brick sewers still in Brooklyn. Let's make these decisions on a sound basis, on a long-term perspective or we will waste scarce capital on this economy.

Mr. SHUSTER. Thank you, Mr. Chairman.

Mr. WISE. Ms. Molinari.

Ms. MOLINARI. Relative to the discussion that just took place regarding the ability to not take resources from one pot to another but rather to restimulate the economy, I am a little confused. I ask the economists in particular to bear with me because I am probably going to use the wrong phraseology.

If we are going to increase the deficit in the short term, are we not reducing resources by virtue of the interest we have to pay on the debt? Are we not taking money out of circulation?

Dr. EISNER. No, that is only by your own constraint. I am delighted to have that question asked.

Ms. MOLINARI. Thank God. I was afraid to ask it.

Dr. EISNER. Everybody asks it. But the fact you have to remember is, if you pay interest, you are giving people money. If you—if you tax them in order to get the interest, then you take it away. But that is essentially a wash. When I talk about resources, and I urge you to look at it, look at the real resources, the capital, the labor, the land that we have to produce.

In the current situation, we have idle resources. So there is no reason to say, well, we have to get people to consume less, for example, to buy fewer automobiles so that we have the resources to build more highways. That doesn't make sense.

If we are using all of our resources, then we face these very serious long-run problems that Dr. Holtz-Eakin is referring to. Should we be spending more on highways or should we be spending more on something else. At the moment we could spend more on all of them. That is not an argument to spend something on what is worthless. But we don't have to sacrifice one thing to get another.

Ms. MOLINARI. Let me now just ask you two, Dr. Eisner, Mr. Faux, to address a statement that Dr. Holtz-Eakin made that by choosing to go the short term stimulus in the infrastructure, it is a transitory benefit that once those roads and bridges are constructed, that we then find ourselves in the same predicament. How do you respond to that?

Mr. FAUX. That is only true if you think you are getting nothing for the money. And you don't need to be an economist to think about it like this. Think about the automobile industry. Would there be an automobile industry without highways? Well, no, of course there wouldn't. If you walk down the street of any city, and I suspect many rural areas, and just observe around you what was put there by the public sector so that the private sector could expand and be productive, you would find that about one-third of the capital of this country essentially is public capital.

It is not a question of should we do it in the private or public sector. Both are necessary to be the foundation for a prosperous economy, and it was always that way.

Let me say a word about the word, "pork." It is something that always comes up. Of course we are all against waste. But let's say we are not any more efficient today in investing in public capital

than we were 50 years ago. We were not so efficient 50 years ago when we did all those jewels of New York City that was mentioned. We weren't all that efficient when we did subways and bridges and the things that made America productive. This is not an argument for inefficiency. But it is an argument for a little perspective.

Yes, there is waste, and we should get rid of it as much as possible. But we should not let that fact paralyze us from doing what we need to do. You know, today's pork barrel politician will be tomorrow's statesman.

Ms. MOLINARI. Here, here.

Dr. HOLTZ-EAKIN. As I hope I made clear in my own remarks but I may have failed, the reason I got into this was exactly that argument. That makes a lot of sense. You don't have to be an economist to figure it out. It may be a miracle that an economist did figure it out. We don't know. That is what got me into the research.

And only by looking at the difference between what happened historically and is likely to happen in the future do you find the difference between the two of us. It is true, the interstate highway system was an enormously productive investment. Do we need another? No. Do we build another and get much productivity from it? Very unlikely.

So if you look at the numbers, while both infrastructure and other kinds of investments are essential to a modern functioning economy, infrastructure is the less productive way to go.

Even if productivity is not zero, academic research is hard and there is some uncertainty. The uncertainty that appears the smallest here is that other kinds of investments are more productive. That is not a conceptual disagreement. It is a disagreement about the numbers.

Ms. MOLINARI. Such as?

Dr. HOLTZ-EAKIN. American firms are not investing, you have heard that before. We can try to decide why, but we know if they invest, they will be very productive investments. Human capital investments, making our workers more skilled, absolutely, those are good investments.

Mr. WISE. If you will yield just a second, I think that is a very important point. I am going to fly, I assume, in the face of Dr. Hunter's statement, his prepared statement and others, but the basic question is why isn't that investment being made by the private sector today?

We can talk about regulation, interest rates are at an all time low, I don't think there is a problem with capacity of capital. It is not as though there is a great crowding-out going on. The fact is that there is more capital out there than can be dealt with at this point.

Three percent interest rates, for instance, refinancing going on hand over fist. It would seem to me that this would be a perfect time for that investment to be coming in, that private investment, yet it is not being made. The Feds kept things low for a period of time. So is it perhaps in the absence of public investment, is there perhaps some public investment that, A, either needs to be made to encourage, that or B, might as well take place at this time because it certainly is a good time for public investment to take place

since private investment is not? I would be happy to hear from either you or——

Dr. EISNER. You are not getting private investment because the economy is not prosperous. You won't get it until the economy is prosperous. I should dispute Dr. Holtz-Eakin, I can give you names of papers by David Aschauen, Alicia Munnell, vice president of the Federal Reserve Bank in Boston, by John Fernell, by myself, by Robert Barro, indicating very considerable productivity from public investment, and also the fact that public investment very frequently will crowd in and not crowd out private investment.

Ms. MOLINARI. May I just follow up on that with one question? Then I do want to hear your response. Are you asserting then, Doctor, that if we were to go down and put forth a capital gains tax cuts and an investment tax credit, that minus the public works stimulus, those government incentives would not be enough to the private business to get them to invest in the economy?

Dr. EISNER. My own argument as to the investment tax credit as a permanent thing, frankly, I don't think it has much bang for the buck. I have studies that I did a good bit of in the past. I would recommend it as a temporary stimulus now because businesses would invest if they think they are going to get it for one year and then not the following year.

The capital gains tax cut I know is a favorite of many people, but frankly I think most economists who look at it say it will do very little if anything for investment, whatever its advantages or disadvantages may be.

Mr. FAUX. The most important single thing I think in front of a business investor today is, is the market there? If the market is soft, customers are not spending. That is what they think about. As a manufacturer said to me the last time we were considering tax cuts, he said, I will take all the tax cuts they give me, but what makes me invest is when I see customers coming in the door with money in their pockets to buy goods.

At this point there is no other source of stimulus. We were promised for several years we would have an export boom and that would do it. That hasn't materialized. There are good reasons why people made some mistakes in that area. But the bottom line is that there are not enough customers out there. As Bob says, there are idle resources. And this is the perfect textbook time for the government to essentially go in and make these investments.

As the gentleman from New York said, this is the cheapest time we are going to be able to do it. Interest rates are down, project costs are down. I think the economics speaks for itself.

Dr. HUNTER. If I can, to return to the question of why investment isn't taking place, the analysis borders on the tautological, I think, to say that investment isn't taking place because the economy is not prosperous misses the point. People make investment decisions on the margin. Yes, they do look at the statistics, they read the Wall Street Journal, they talk to their fellow local Chamber of Commerce members, and they get a feel of the market, but that is not really the way people make investment decisions. They sit down with a very sharp pencil and try to make some reasonable calculation on what the rate of return to investment is likely to be.

Another way of saying that is they look at what is the marginal rate of taxation on capital and what is the marginal rate of return on capital. In spite of everything that has happened over the last decade, the marginal rate of taxation on capital income today is higher than it was in 1980. That doesn't explain everything. We also have regulatory overkill in the lending industry that makes it virtually impossible for small start-ups to put a reasonable amount of capital together with a reasonable amount of debt and begin a business.

So I think you have to get back to the ultimate issue which is what is the cost of capital and what is the availability of capital. For all of the importance of public investment, both for short-term and long-term considerations, it doesn't really go to the heart of the issue that the individual entrepreneur faces when he makes an investment decision. It is a broader question of incentives.

Dr. HOLTZ-EAKIN. Let me say just a word about a couple things that have floated through there. Number one, I agree with the observation that if there is a project that deserves funding and should be undertaken, has all the benefits that we see, now is the time to do it. There is absolutely nothing wrong with that reasoning. Also, this is not the right place for Bob Eisner and I to sort out our differences over how to read the literature on the productivity of capital. We have had this fight before, we will have it again. Let's just get past that now and let me leave you with this.

There is a lot of uncertainty about these macro effects. There is an enormous number of papers and a dispute about the right way to measure them. We do know the right way to look at a project and evaluate its costs and its benefits. The Congressional Budget Office is staffed with people who are experts in exactly such calculations. In 1988, they reviewed the performance of lots of infrastructure-style projects, and what they found was that many were overfunded and did not pay back what they would have expected. Some, in fact, were underfunded.

All that argues, I think, against the logic of rushing into these projects on other grounds. We don't know what the macro effects are, let's say. To use those arguments as support for rushing into a big infrastructure program, I think is not particularly well founded. Let's wait, do the studies right. I firmly believe that infrastructure is important. I got into this area for that reason. The CBO and other people can identify the projects we should fund. I think that is a good way of going about doing business.

Mr. COLETTI. It is difficult for me not having the academic background in economics to sit between so many distinguished economists, but I hear let's study it more, and let's try to figure out the long-term costs, and I have got to go back to a real life scenario. There are thousands of unemployed people in this nation. In terms of long-term growth, I probably agree with 90 percent of what all the economists here have talked about, do we need to reduce the capital gains tax, probably.

We have got to get the private sector back into the investment world. They have got to—we have got to start moving that. But the reality is that isn't going to happen. As you said, Mr. Chairman, with the interest rates being so low, and a whole host of other fac-

tors, that hasn't happened. It isn't likely to happen in the next few years.

One of the reasons prices are so down in the construction industry is because the members of my association aren't bidding projects and making any money off them. They are bidding them at cost to survive, so they can't make the calculation that the gentleman made from the Chamber of Commerce as to whether or not it is important to them or worth it to them to invest because they don't have the ability to make that 1 or 2 percent calculation. They are worrying about keeping their doors open.

I think you have a very difficult task in trying to take all the information that you will be presented over the next few weeks and months and try to bring this back home to where we are, which is affecting real people.

Ms. MOLINARI. Let me see if I can maybe clarify where I think you may be coming from, Dr. Eakin. Are you saying that you would not necessarily be opposed to both short-term and long-term infrastructure investment if we chose the projects wisely?

Dr. HOLTZ-EAKIN. Yes, that is the best possible of all worlds.

Ms. MOLINARI. Okay, let me just ask one more question, then I am done, Mr. Chairman. When we talk about this from an economic package, there have been arguments that President Clinton has one set of numbers, Republicans have another set of numbers, Mr. Faux, you have come up with a figure of $60 billion. Is there some number at which point it is too low to expect improvement and some number which is too high to exacerbate a deficit? Is there some kind of model number that we should be looking at?

Mr. FAUX. The $60 billion figure that I cited was a total stimulus, so that included human investment and a temporary investment tax credit. We did a calculation on the basis of a survey about 18 months ago, and we came up with a number for physical infrastructure at the Federal level of about $25 billion, roughly being the minimum that we needed annually in order to keep from falling behind that of our major competitors in the world. So President-elect Clinton says $20, we say $25. Split the difference, but I would say somewhere around that.

I would make one point about the speed. Most of the studies that have been made about the quickness of getting this money out were made in the 1960s and 1970s when we already were at a fairly generous rate of public investment, so we didn't have all this neglect. In those days when you went into a recession you got out of it fairly quickly, and because it took 12 months, 18 months, 24 months to get the projects going, and there was a big delay.

It is a different situation now, and at least some of those past experiences are not terribly apt.

Dr. HUNTER. Mr. Chairman, any of these numbers are somewhat arbitrary. Let me suggest rather than trying to decide whether $20 billion or $60 billion is right, that there is a framework by which you can go about making those decisions, and the little graph I included, the little chart I included in my prepared testimony I think helps formulate the way you think about this.

Don't take those numbers as gospel, but ask yourself what growth path are we currently on under the current policy regime we face. Then ask yourself what is the growth path you believe the

economy can be on under the right set of circumstances. The numbers I have chosen is to look at the postwar trend of about 3.2 percent that, over the long term, certainly is doable. I have taken the CBO estimate and the blue chip consensus that all converge to 2.5 percent, and compare that to historical potential. The difference between those two lines suggest some kind of cumulative shortfall in output over a period of time.

Ask yourself how much you can raise output with a set of public policy initiatives, and then you can make a determination of whether or not it is worth it to "spend the money." Now the danger is that you don't make an honest assessment of how effective each and every one of these policy changes is in raising the growth rate, but at least theoretically if you have made a good faith determination. You have decided that the package of policy proposals on the tax side, on the spending side, and on the regulatory side all combine to give you an increase in long-term growth of a half point or a full point. That gives you in a budget sense, the static loss you can spend over some reasonable period of time.

It is dangerous to make these calculations in a purely political setting, but I think it helps structure your thoughts about the fact that we are facing considerable lost output. We can make that kind of public investment in thinking, at the very least.

Dr. EISNER. I could give you a very rough number. Let's assume $50,000 per job, $20 billion comes to about 400,000 jobs. If you stop to think that unemployment was under 5.5 percent for three years, 1988, 1989, 1990, it is now 7.2, 7.3 percent, you are talking about a shortfall just to get back to where we were a few years ago, you are talking of a shortfall of, what, about 3 million jobs, so it is still a small step except to the extent you can expect the $20 billion will stimulate more, but I would aim higher, but again I would aim not only at roads and bridges, I would aim at all kinds of other public spending and a stimulative to private spending.

Ms. MOLINARI. Thank you.

Mr. WISE. Mr. Collins.

Mr. COLLINS. Dr. Eisner, you mentioned earlier that there was not a lot of investment going on today by the private sector. What do you think we could do to encourage the private sector to invest or to take risk of investment?

Dr. EISNER. The biggest thing by far is to get the economy growing again. Business needs more capital when it has a need to produce more. If it doesn't see customers, as Jeff Faux has put it, it is not going to be investing. The second thing to do would be to give it the research knowledge for new technology, the trained labor force that would make it profitable to hire more people. When you are hiring more people, you will find that you need more capital to go with them.

So I would say that providing a prosperous economy, providing a solid foundation of knowledge, of research, of trained labor would do the most for private investment. Again, in the short run I think you could get a very big bang for the buck by having a high marginal credit, which probably would not add anything to the deficit, in which businesses could get as much as a 30 percent credit on expenditures over what they did, let's say, last year, and with the knowledge that they better take advantage of it now, otherwise

they won't get anything. That would be literally pump priming. You would prime the pump and you would have to hope that that stimulus would leave things going. I think it would.

Once the economy is moving up, then I would leave private investment to business, to individual decisions based on a situation again where there is a high level of research going on and where they have trained workers that they can get.

Mr. COLLINS. What is your opinion on capital gains tax credit, and investment tax credit, not just short term, not just for fiscal year 1993.

Dr. EISNER. I differentiate again between an investment tax credit, which is for the expenditure for new machinery or for new buildings, and a capital gains tax cut. One problem with a capital gains tax cut is that it extends to all kinds of capital gains. The other problem is it is not clear really that it is going to induce much in the way of business investment. It is a very shaky thing for that purpose.

You could somehow target the capital gains tax cut, I suppose, to those firms or investors that actually use the funds for investment, but otherwise it is a pretty indirect method of accomplishing anything.

Mr. COLLINS. Does capital gains tax credit not only apply to individuals as well as to business? Has it not applied in the past to individuals as well as to business?

Dr. EISNER. Well, of course we do tax capital gains some, but most investors escape taxation because their gains are only taxed when they accrue, that is when you realize them, when you sell the property, so in fact with all the talk about capital gains tax cuts, there is really relatively little taxation of capital gains at this point.

Mr. COLLINS. Would that not be because there is not a lot of activity? Kind of what comes first, the chicken or the egg?

Dr. EISNER. It is partly that but it is partly that people avoid the capital gains tax. You don't sell your property and you don't have the capital gains tax. That is a disadvantage. You hate to lock people into it, but they are not paying much in capital gains taxes.

Mr. COLLINS. I think you hit it right on the head, if you don't sell the property, you don't pay the tax, and if the property is not sold, the government doesn't collect the tax. So everyone loses in that situation, and it is because of the lack of a capital gains tax credit.

Mr. Faux, you mentioned during the first construction of our infrastructure that everything went kind of smoothly along and the government stood for what was needed and what was necessary. Is that not kind of what you were relating to earlier?

Mr. FAUX. I missed the first couple of words in that sentence.

Mr. COLLINS. You mentioned in some of your remarks that when we, that is this nation and government, began to build its first infrastructure——

Mr. FAUX. Oh, in the history of the country?

Mr. COLLINS. That is right. We did what was necessary with the resources that we had at the time to do what we had to do. Is that kind of what you indicated?

Mr. FAUX. Yes. I guess my point was there were always inefficiencies. Some projects were good, some projects were bad, but we weren't so afraid of making mistakes that we didn't build the canals, build the roads, and do those other pieces of infrastructure that were important for the country's prosperity.

Mr. COLLINS. At that time we had the resources necessary to pay for those projects, is that not true?

Mr. FAUX. Well, most of these projects were done by borrowing. The canals that were our first big infrastructure projects were done with borrowed money. Roads were done with borrowed money. We had the credit, less credit than we have now in many ways, but it was sensible financing. Mostly we didn't do it pay-as-you-go. Mostly we did it the way a corporation would, and that is you have got something that is going to last 30 years, you go out and borrow the money and pay it off over the next few years.

Mr. COLLINS. I understand that. That is a good point. My question, too, is during the time of the first construction of the infrastructure, do you have any knowledge or have any information on exactly how many entitlement programs that this government was also funding during that same period of time?

Mr. FAUX. Back in the 18th century? No.

Mr. COLLINS. I don't imagine you would find many. Let's see, Mr. Eisner, I believe you mentioned filling some 400,000 jobs. Was that a figure that I heard you use a minute ago?

Dr. EISNER. I just made a very rough estimate that $20 billion of additional product which might be represented by public investment would require 400,000 people to produce it in the sense that it would take $50,000 per job. I simply divided $20 billion by 50,000 and I got 400,000.

I hope your staff can do a better estimate, but I don't think that is way out of the ballpark.

Mr. COLLINS. That is a pretty good figure. When you are dealing with a lot of zeroes, it is not hard to figure anyway. But dealing with that and taking that into consideration, those 400,000 jobs, in all of your research and knowledge, approximately how many of those jobs would be filled by people who are already employed through companies, who already had work today?

Dr. EISNER. That is exactly the point. We have had able testimony from the gentleman from New York on the building trades. Very few of them would be filled by people that already have jobs. That is exactly it. With this much unemployment, you are going to be putting people to work, and for that matter if it came from somebody who has another job, then that other job would be open and the person would go there.

This would be, I think, overwhelmingly, perhaps entirely a net increase of 400,000.

Mr. COLLINS. That increase—you said a few of them probably would be—I missed your testimony. We don't have any research to give us approximately what that would be equivalent to, is that right?

Dr. EISNER. I don't know of anybody who would.

Mr. FAUX. But it is a net number. That is, 400,000 net new jobs.

Mr. COLLINS. What would be gross?

Mr. FAUX. I am sorry?

Mr. COLLINS. What would be the gross?

Mr. FAUX. Well, it is net and gross.

Mr. COLLINS. You have to have a gross to get a net.

Mr. FAUX. The point is if you spend an additional $20 billion, when we have got an unemployment rate like we have today, you are going to get roughly 400,000 new jobs out of it. Some will be jobs opened up because someone else took the job at the specific project that was funded with the $20 billion. But it is a net addition to the employment numbers.

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. WISE. Thank you. I want to thank the panel. Mr. Coletti, you made a point that needs a little referencing. That is, we have been discussing for the last hour so basically it has been an economic discussion, it has been about macroeconomics. My observation is that on the way to the macro, you have to deal with a lot of micros. You have to deal with the problems that Mayor Flynn and Mayor Waggy and Mr. Wilson and Judge Stoner and others have talked about.

They are the ones who will have to implement whatever decisions ultimately come from this discussion. As one debates national policy, we also have to remember how it relates to the policy on the street where we live, and I think that is crucial.

Ladies and gentlemen, I want to thank you very much, because you have opened up what I think is going to be a major topic certainly for this Congress, this administration coming in, over the next few years, certainly for the next few months. The short term, while the purpose of this hearing is to discuss economic growth stimulus that many would term short term in the sense of getting something in—the dirt flying very quickly, and the point has been made by many of you and it is a good point, it has to all be part of a long-term growth strategy, and that is what we are here about.

The committee has received extensive testimony and statements today, and I want to let you know that I think you have set a foundation for the discussion that is going to take place. We will continue this series of hearings. We will continue to have a variety of viewpoints represented. I anticipate we are all going to be talking again. I thank you very much. I turn to the Ranking Member, Ms. Molinari for any closing statements.

Ms. MOLINARI. I also would like to thank our witnesses here today. We kept you for many long hours, engaged you in debate and discussion that you probably did not need. Nevertheless, it has been very instructional and educational for everyone here and watching on television.

Mr. Chairman, I don't think you could have assembled a more terrific group of people to begin and develop the framework for this discussion and the impact from an economic standpoint, from a human growth standpoint, from a business standpoint, from the counties to the cities. These are all the perspectives that we need to keep in balance as we begin to formulate what will hopefully be some kind of economic recovery and moments of hope for Americans.

You have all been very instrumental in helping us frame out that discussion. I thank you very much for your patience and your information.

Mr. WISE. Having said that, I declare this hearing adjourned.
[Whereupon, at 2:28 p.m., the subcommittee was adjourned.]

PREPARED STATEMENTS OF WITNESSES

Testimony
of

BARBARA R. BERGMANN

Distinguished Professor of Economics
American University
Washington, D.C.

before the

Subcommitte on Economic Development
Committee on Public Works and Transportation
U.S. House of Representatives

January 15, 1993

WOULD ECONOMIC STIMULUS BE WISE AT THIS TIME?

I would describe the current state of the American economy as mid-level stagnation. Almost all of the previous recessions since World War II have been followed quite promptly by a period of vigorous growth in output and jobs.[1] Such a recovery period may be "just around the corner", but we do not appear to have entered it yet.

The economists of the Bush Administration had the strongest incentive possible to stage a prompt and vigorous recovery. Yet they held off from applying fiscal stimulus to the economy -- raising government expenditure or cutting taxes with the purpose of putting the unemployed to work -- for two reasons:

1. They assumed that the the common pattern of post-recession periods would repeat itself once again, and that vigorous recovery would follow this recession with reasonable promptness. They kept seeing supposed harbingers of that recovery, but they kept being disappointed.

2. The size of the deficit and the national debt which had resulted from the shameless and irresponsible "riverboat gamble" of the Reagan years appalled even them. They did not want to increase the deficit beyond what it was.

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1. The most obvious exception was the faltering recovery following the recession that struck during Eisenhower's second term, that ushered in the election of John F. Kennedy.

In the last few days, Michael Boskin, Chair of Bush's Council of Economic has acknowledged that the Bush Administration erred in not applying greater stimulus a year ago. We have to presume that Boskin was talking about the welfare of the country, rather than Bush's political welfare, and that he means that the country's economy would be better off if more stimulus had been applied.

If Boskin is right, and more stimulus should have been applied a year ago, then what about now? I believe the case for more stimulus is stronger now than it was a year ago. We have had an extra year of stagnation, and still there is no very sure sign that the vigorous recovery we so much need is beginning.

The Benefit of Stimulus

The benefit of stimulus is, of course, that we give employment to people who are out of work, and that we get the use of the extra output they produce, which would otherwise have been lost. Fiscal stimulus now would accomplish that end, if properly structured.

By next week, Laura Tyson will be sitting in Boskin's chair. Her ability to see whether recovery is "just around the corner" is probably no worse than Boskin's. But unfortunately no economist's ability to see around the next corner is better than Boskin's, because the science of economic prediction has not advanced sufficiently.

Despite our lack of ability to make very accurate predictions, it should be obvious that there is and will be for some time considerable slack, allowing leeway for stimulus. There is very little danger that producing additional output by government spending for worthwhile projects would displace the production of higher-priority output that would otherwise occur through private spending. On the contrary, publicly-purchased output will, through the stimulation of demand, induce the production of privately-purchased output which would otherwise not occur.

If we consider private investment, which is crucial to productivity growth, a more vigorous recovery will stimulate it. There is little danger of "crowding out" private investment if the Fed does its part to keep interest rates low. The danger of overheating appears remote.

The Cost of Stimulus: Higher Deficit

The cost of stimulus is temporarily increasing the deficit and permanently increasing the national debt. A temporary increase in the deficit should have little bad effect on the economy if the Fed plays its part, and does not allow the extra supply of bonds to raise interest rates.

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NEW YORK BUILDING CONGRESS
POSITION PAPER
ON INFRASTRUCTURE INVESTMENT

December 8, 1992

Presented To: President-Elect Clinton-Gore Transition Team;
Rebuild America Coalition Infrastructure Transition Roundtable, Atlanta, Georgia;
Honorable Maynard Jackson, Mayor of Atlanta;
and
Chairman, Rebuild America Coalition

Presented By: Louis J. Coletti
President and Chief Executive Officer
New York Building Congress, Inc.

The probably permanent increase in the total debt is more serious, because the increased interest payments that the Treasury must pay detract from our ability to finance worthwhile projects with a given tax base. The high interest costs themselves increase the deficit, with a snowballing effect on the size of the debt.

However, a temporary stimulus need not preclude the immediate adoption of a long-range plan for reducing the deficit. This would be a good time to raise income taxes on the upper-income groups, which would have a minimal effect on demand, and to pass a bill which phases in a rise in the gasoline tax when the recovery is established.

What Should We Spend for?

Finally, I would urge that a recovery program should include money for the states and localities to avoid or reduce the cutbacks in important services that are now occurring. Federal funds should help the states avoid cuts in mental health services, library hours, youth counseling, police services, help for the homeless. Primary or exclusive emphasis on construction projects, particularly those which take long to get started, should be avoided.

The construction industry continues to be dilatory in opening skilled jobs to minorities and women. Black unemployment rates are now running at 12 percent. Single mothers have been very hard hit by the recession, and as a result the welfare rolls have burgeoned. An equitable recovery policy would put high priority on getting minority unemployment rates down, and reducing welfare rolls by opening job opportunities for women. Relying mainly or exclusively on construction projects to stimulate the economy means leaving women and minority workers out of our recovery package.

I would suggest that any bill with funds for construction contain provisions that would disqualify the 10 percent of contractors in each county that have the worst record in terms of meeting their obligations to conduct hiring fairly. The Labor Department has the data to make a quick determination of eligibility.

ORGANIZATIONAL BACKGROUND

The New York Building Congress is a 72-year-old non-partisan public policy coalition of business, labor, professional and industry associations; design and construction companies; and governmental organizations. Its 500 corporate, institutional and labor union members comprise some 250,000 individuals.

INTRODUCTION

Our nation's basic infrastructure problem is no mystery. We have failed to sustain the level of public investment America needs to encourage economic growth and improve living standards. Both the business community and government have pursued a course of short-term speculation rather than long-term productive investment. An ambitious public investment agenda will reverse the neglect of our infrastructure and make our nation more productive. At the same time, it will create new job opportunities and stimulate growth.

America's infrastructure underinvesting record is alarming. It hurts our ability to be competitive in the world marketplace and to create the opportunity for a satisfactory standard of living.

The severity of the problem can be illustrated by the following statistics:

1) In the 1980s, the proportion of the federal budget spent on public investment fell to half that spent in the 1970s and one-quarter of that spent in the 1950s and 1960s.[1]

2) Between 1980 and 1990, federal investments in infrastructure were cut in half with spending falling from roughly 5.0 percent of all federal spending to 2.5 percent.[2]

3) The United States is investing less than 0.3 percent of its Gross Domestic Product annually on infrastructure, lagging far behind Japan (5.7%), Italy(4.8%), Germany (3.7%), France (2.7%), Britain (2.0%), and Canada (1.8%).[3]

The New York Building Congress believes that infrastructure must be a top national priority to support housing and community development. Investment in infrastructure must be increased in both the short and long term. The decade of the 1990s must be one of rebuilding. Almost every dollar spent on infrastructure goes directly into the U.S. economy. Direct public investment creates jobs and income while improving the investment climate in the United States.

I. SHORT TERM POLICY PROPOSALS

We strongly urge President-Elect Bill Clinton to reject the notion that the recent upturn in our economy indicates that there is no longer a need for a short-term infrastructure stimulus program. We desperately need a short-term infrastructure stimulus program for the following reasons:

1) To prevent the U.S. from falling even further behind the world in the race for economic competitiveness. Despite suffering from a recession, both Japan and the European Community recently announced massive public works construction plans intended to reduce unemployment and bolster their economies.

2) To ensure that the recent upturn can be sustained.

3) To create new jobs. In New York City alone, from 1987 to 1992, the construction industry has lost 32,000 construction jobs, 1,600 design professional jobs, $1.5 billion in wages, and $607 million in tax revenue, with over 10 percent of construction union members having lost their health care coverage. Statewide, one of every six individuals collecting unemployment insurance is in the construction industry.

The New York Building Congress fully supports the two short term recommendations proposed by the Rebuild America Coalition:

1) We support full funding of the $151 billion Intermodal Surface Transportation Efficiency Act(ISTEA). ISTEA passed Congress last year, but was scaled back in appropriations legislation. We also support the separation of all transportation trust funds from the unified budget, and the spend down of their sizeable balances by 1997 for transportation purposes. Currently, the combined unobligated balance for the transportation trust funds is close to $30 billion -- $12.2 billion in the highway trust fund, $9.8 billion in the transit trust fund and $7.5 billion in the aviation trust fund.

2) We fully support the Coalition's proposal for a federal capital infrastructure program to provide assistance directly to state and local governments to fund ready-to-go projects that will create jobs now. The United States Conference of Mayors has identified 7,2[illegible] projects in 506 cities that are ready to be built. These projects amount to a total cost of $13 billion to get started, and a total multi-year cost of over $26 billion to complete. If funded, a potential 418,415 new jobs could be generated in one year's time.

The New York Building Congress submits for your consideration several additional recommendations which we believe will supplement the Rebuild America Coalition proposals and result in creating jobs now:

1. Create an Intergovernmental Coordination Task Force to Establish Uniform Standards For Infrastructure Projects Funded Under Both Proposals. Task Force members would include the appropriate city, state and federal representatives responsible for the respective infrastructures projects. The Task Force would be required to establish such standards within 30 days of the President's action in order to quickly create jobs by initiating design and construction of infrastructure projects. Currently, each level of government sets independent standards which cause long delays and cost overruns in project development and construction. One option is to consider the use of local standards in order to jumpstart the creation of new jobs.

2. Require Local and State Jurisdictions to Sustain FY 1993 Infrastructure Spending Levels in Order to Qualify for Supplemental Federal Funding. The purpose of the enhanced federal funding is to act as an economic stimulus for creating jobs. This goal will not be achieved if local and state officials cut their plans for capital spending because of the availability of new federal funds. It must be clear that any new federal infrastructure funding must be in addition to (not in place of) local government's existing capital program.

3. Expand the Definition of Infrastructure to Include Public Schools, Public Hospitals, Cultural Institutions Public Parks and other Public Buildings. The U. S. Conference of Mayors project list should be expanded to include the above building types. While it is clear that transportation environmental and telecommunications projects are a key to improving our nation's economic competitiveness, we cannot lose sight of the fact that the quality of life throughout our nation has deteriorated. A massive public works program such as this can be the centerpiece of a national strategy to integrate a number of elements vital to generating long-term prosperity. As New York Governor Mario M. Cuomo said in his introduction to a recent report by the Commission on Competitiveness entitled America's Agenda: Rebuilding Economic Strength:

> "The American faith in a better, brighter future for our children is being tested. Not since the Great Depression have as many Americans questioned whether the next generation would earn at least the comfort, security and dignity of the one before it. This quintessential American faith has sustained us and helped us define ourselves as a nation. If that mission of America is lost, we will lose the national as we have known it." p.xix

A broader definition of the term infrastructure can bring substantive debate of a number of other related public policy questions.

- Can we realistically seek a longer school year without providing a conducive learning environment? We require appropriate heating and ventilating systems as well as square foot requirements in building prisons - why not for the education of tomorrow's workforce.

- How can we improve the quality of urban life when financing for public parks and cultural institutions is constantly cut back or eliminated? In a recent analysis done by New York's Municipal Art Society, the following projects were built in previous periods of economic difficulty:

The Panic of 1857	**Central Park**
The Panic of 1873	**American Museum of Natural History**
	The Metropolitan Museum of Art
Depression of 1893	**Bronx Zoo**
The Great Depression 1929-1941	**Orchard Beach**
	Rockefeller Center

- As we confront our nation's healthcare crisis, have we improved the quality of our healthcare systems if its physical infrastructure is not suited to providing the most modern facilities possible?

- How can we engender respect for authority when our courthouses, city halls and other public facilities are badly in need of repair?

The New York Building Congress recommends that such a capital investment program be implemented in a manner similar to the former Revenue Sharing Program. Each eligible jurisdiction would receive a single block grant allocation of funding. Enabling legislation would establish maximum percentages which could be spent by type of project, i.e. no more than 10% of federal supplemental funding could be used for parks, 25% for schools, etc.

We would also recommend that a requirement for a minimum percentage of this funding to be used for designing new projects be established. This requirement would act as a stimulus to expedite further capital investment using local expenditures because more projects would be ready for construction sooner.

Federal funding derived from this supplemental program should be used exclusively for design and construction services. Project management and administrative costs should be the responsibility of local and state government grant recipients.

II. LONG-TERM POLICY PROPOSALS: REBUILD AMERICA FUND

The New York Building Congress fully supports President-elect Bill Clinton's "Rebuild America Fund"

We also endorse the proposals made by the Rebuild America Coalition to leverage these funds with state, local and private sector funding through:

1. Providing Tax Incentives for Public-Private Partnerships.* We support amendments of the federal tax code to promote public-private partnerships in the ownership and operation of infrastructure facilities financed by tax-exempt bonds. Under our proposal, we call for modifying tax law to classify tax-exempt bonds issued to finance privately-owned or mixed ownership projects as governmental activity bonds. In addition, these projects should be exempted from the current private business and security use tests, and bonds used to finance such projects exempted from private-activity volume limitations. These changes in tax law would be subject to conditions assuring public control of the financed facilities.

2. Creating Tax-Exempt Municipal Savings Bonds. We support changes to the federal tax code relating to tax-exempt bond arbitrage rebate rules and requirements for bond proceeds expenditures to permit the issuance of tax-exempt municipal savings bonds in a structure that would be designed to appeal to individuals who want to save for their first-time home purchases, children's college education and retirement. These securities would be issued in small denominations as insured, zero-coupon bonds, creating a savings instrument similar to U.S. EE savings bonds.

3. Increasing Bank Purchases of Governmental Bonds. We support incentives to encourage commercial banks to purchase municipal bonds once again. The tax code should be modified by raising the current $10 million issuer limit to $25 million for bank-qualified purchases of tax-exempt bonds.

4. Expanding State Revolving Loan Funds. We support re-authorization of the EPA State Revolving Loan Fund for Wastewater Treatment Facilities, which expired in 1992 and the expansion of this concept and funding to permit the financing of the full range of infrastructure facilities.

5. Creating a Federal Infrastructure Bond Bank. We support the establishment of a Federal Infrastructure Bond Bank or FIBB. FIBB would be a free-standing, quasi-governmental entity that would operate nationwide. It would provide technical assistance to state and local governments on infrastructure financing support a national education campaign on alternative financing methods, provide credit enhancement for appropriate infrastructure projects, and supply market liquidity for projects that would otherwise not be able to be sold on the national

credit markets. We propose that the FIBB be capitalized at $5 billion a year for the first five years.

6. Enhancing the Efficiency of Municipal Bonds. We support simplification of the tax code to make municipal bonds more efficient. We urge adoption of the changes recommended by the Anthony Commission on Public Finance which included changes related to arbitrage rebate restrictions and eliminations and modifications of a number of requirements that would ease restrictions in a manner recognizing the federal concern that originally motivated their inclusion.

7. Encouraging Other Innovative Funding Mechanisms at the State and Local Levels. States and localities have experimented with numerous other funding mechanisms. We support increasing federal research and information dissemination to assist states and localities to put together the most appropriate funding packages to finance their infrastructure facilities.

To assist the Congress to more rationally account for the cost of physical infrastructure, we support the establishment of a long-term, multi-year capital budget that would establish an infrastructure investment account within the unified budget. In addition, we support increased federal funds over the next four years to permit state and local governments to do comprehensive infrastructure planning as an essential component of their overall development plans covering needs and opportunities for the next twenty-five years. Finally, we support an increase in the amount of federal funds and resources, including federal laboratories, committed to infrastructure education, research, development, and technology to foster innovation and increased productivity in the design, materials, construction, maintenance and operation of the nation's public works infrastructure.

The New York Building Congress also submits the following additional recommendations for your consideration:

1. To Increase from $20 to $35 Billion of Federal Dollars Each Year For the Next Four Years In the Rebuild America Fund. The additional funds would be used for those types projects outlined in the expanded definition of infrastructure such as schools, parks, hospitals and cultural institutions.

III. SUMMARY

The time has arrived for this nation to make an unqualified commitment to rebuilding our infrastructure. This commitment includes the provision of a financial investment that will result in two distinct achievements: 1) the creation of new jobs, and 2) a renewed competitiveness in a global economy.

The physical reconstruction of the U.S. can also provide another critical benefit to our nation - it can provide the base with which to deal with the deep social and economic ills of Urban America.

A commitment to Rebuilding America can provide business opportunities to minority and women owned businesses, employment opportunities in the construction trades for minorities and women and re-employment opportunities to the thousands of individuals currently unemployed in the building trades.

In previous years, the manufacturing industry provided an entrance point for many to the traditional middle-class life and pursuit of the American Dream. Those doors are now closed for two basic reasons. First, our nation's jobs have shifted from high paying to low-paying industries. As can be seen from the table below, 88% of the jobs created in the 1980's were in retail trade and services, two industries of the service providing sector that pay below-average wages.[4]

TABLE 1: **The Shift of Employment from High-Wage to Low-Wage Industries**

Industry	Employment (in thousands) 1979	1991	Change	Share of job growth	1991 average weekly earnings
Mining	958	697	-261	-1.6	$631
Construction	4,463	4,696	223	1.4	534
Manufacturing	21,040	18,426	-2,614	-15.7	455
Durable Goods	12,730	10,556	-2,174	-13.0	483
Nondurable	8,310	7,870	-440	-2.6	420
Transportation & public utilities	5,136	5,84	688	4.1	512
Wholesale trade	5,221	6,072	851	5.1	429
Retail trade	14,972	19,346	4,374	26.3	200
Finance, Insurance & Real Estate	4,975	6,708	1,733	10.4	373
Services	17,112	28,779	11,667	70.0	333
Total private	73,876	90,548	16,672	100	$355

Source: U.S. Bureau of Labor Statistics

The construction industry ranks second in the 1991 average weekly earnings in the industries outlined above. A national investment in rebuilding infrastructure our can provide the opportunity to become a real part of the American Dream.

Second, between 1982 and 1987, the biggest manufacturing jobs losses occurred in Urban America.

Urban America has emerged as centers for high-skills employment. Too many workers remaining in today's inner cities lack the qualifications demanded by the growing high-skilled, high-performance marketplace. And too many workers in the inner cities lack the opportunity to pursue traditional blue-collar jobs that can provide them with the hope of pursuing and participating in the American Dream.

TABLE 2: **Changes in Manufacturing Employment, Eight Cities and the United States, 1982-87**

	Change (in thousands)	Percent
Buffalo	-2.0	-5.4
Chicago	-56.4	-20.4
Detroit	-3.5	-3.3
Newark	-7.5	-21.9
Cleveland	-16.9	-18.3
Philadelphia	-29.1	-23.3
Pittsburgh	-21.5	-41.1
United States	243.0	1.3

Source: U. S. Bureau of the Census: Census of Manufacturers, 1982 and 1987

When added to the need to create job, and increase our national competitiveness, the opportunities to link these goals to provide real opportunities for Urban America become too compelling to ignore.

For a nation that has invested some $500 billion in bailing out the savings and loan industry, can we accept anything less than the same level of commitment in order to invest in ourselves?

We in New York have what we consider national models for integrating a Rebuild America Strategy with a Renewed Urban Agenda. The Port Authority of New York and New Jersey has created a unique public/private partnership to create new business opportunities for minority and women-owned business. Very shortly, a historic Memorandum Of Understanding will be signed between the Building and Construction Trades Council of Greater New York, NYC Board of Education and NYC School Construction Authority which will link increased apprenticeship opportunities and vocational training for minorities and women with the rebuilding of our city's public school infrastructure. We would welcome the opportunity to share with you these particular initiatives.

In conclusion, the New York Building Congress strongly urges President-elect Bill Clinton to move forward aggressively in a campaign to Rebuild America based upon the recommendations included here. We have very little choice —there is nothing more at stake than our future.

New York
Building Congress, Inc.

CONSTRUCTION REALITY FROM 1987 TO 1992

NEW YORK CITY HAS LOST

* 32,000 DIRECT CONSTRUCTION JOBS

* 1,600 DESIGN PROFESSIONAL JOBS

* $1.5 BILLION IN CONSTRUCTION WAGES

* $607 MILLION IN CITY TAXES

* OVER 10% OF CONSTRUCTION UNION MEMBERS HAVE LOST THEIR HEALTH CARE COVERAGE

IN NEW YORK STATE

* ONE OF EVERY SIX PEOPLE COLLECTING UNEMPLOYMENT INSURANCE TODAY IS A CONSTRUCTION WORKER

New York City's Population & Economy

Economic and Employment Trends

From 1983, at the bottom of the prior recession, to 1987, the recent private employment peak, New York City enjoyed substantial economic growth due largely to the expansion of its financial and advanced business services industries; per capita income rose, dependence on transfer payments decreased, and unemployment fell. The city's growing economy provided higher tax revenues for local government, allowing the city to increase services and capital spending on infrastructure, housing, and economic development. However, after the stock market crash in late 1987, private sector employment growth came to a halt. Recently, the slowing economy and falling tax receipts have forced the city to increase taxes, reduce services and limit the capital budget.

New York City employment increased by 7.4% over the 1983 to 1987 period, from 3.4 million in 1984 to 3.6 million in 1987. Leading industries such as banking, securities and commodities, insurance, legal services, education, business services and engineering and management services grew rapidly. Others, including apparel, printing and publishing, miscellaneous manufacturing and communications, declined. This pattern is a continuation of a 30-year trend of declining manufacturing employment and rising employment in services in the city.

The city's economy is currently in a deep recession. Employment fell 6.5 percent from 1987 to 1991, and by the end of 1992 all of the employment gains of the prior expansion will have been lost. Since 1989, similar losses have been posted in surrounding suburbs and the rest of the Northeast. Although the decline in employment appears to have ended, it has yet to be replaced by a sustained recovery.

Table 1

Payroll Employment by Major Industry Group, New York City 1987 and 1991
(thousands)

	1987	1991	% Change
Construction	119	98	-17.6
Manufacturing	380	308	-18.9
Transport/Communications/Public Utilities	215	219	1.9
Wholesale & Retail Trade	638	561	-12.1
FIRE	550	497	-9.6
Services	1,109	1,098	-1.0
Government	580	591	1.9
TOTAL	3,590	3,372	-6.1

Source: Current Employment Survey program, NYS Department of Labor

BUS AND HEAVY RAIL ARE THE MODES WITH THE LARGEST FUNDING NEEDS

Funding needs by mode are reported on Table 5. Heavy rail is the mode with the greatest requirements, with funding needs of $27.7 billion between 1992 and 1997. Heavy rail needs include $9.6 billion or 35% for new starts and $8.3 billion or 30% for facility modernization.

Bus needs of $26.1 billion are slightly less than those for heavy rail. The largest bus needs are $12.4 billion or 48% for new vehicles and $5.6 billion or 22% for new maintenance and other types of facilities.

Needs for other modes include $16.3 billion for light rail and $17.8 billion for commuter rail. Over 83% or $13.5 billion of the light funding requirement is for new starts. For commuter rail, the largest funding need is for facility modernization which will require $5.9 billion or 33% of commuter rail capital funding during the six-year period.

TABLE 5: CAPITAL NEEDS BY VEHICLE MODE, 1992 - 1997 MILLIONS OF DOLLARS

Mode of Service	Millions of Dollars 1992 - 1997
Motor Bus/Van	$ 26,100
Heavy Rail	27,700
Light Rail	16,300
Commuter Rail	17,800
Other Modes	2,900
Total Six-Year Needs	$ 90,800

CAPITAL FUNDING SHOULD BE INCREASED FOURFOLD

These estimates of transit capital needs are statements of the funds that transit systems require to fulfill their transportation role. Unfortunately, they are not necessarily a statement of what transit systems will receive or be able to spend. These amounts are several times greater than current capital funding levels. Unless government agencies at all levels, but especially the Federal Government, make a commitment to improving America's transit infrastructure, these needs will remain unfulfilled.

From 1985 through 1990, capital funding averaged $3.6 billion per year from federal appropriations and state and local matching funds. Funds raised entirely at the state and local level are not included in this average. This level of funding must be raised approximately fourfold in order to fund average annual transit capital needs of $15.1 billion from 1992 through 1997.

1/13/92

Committee on Public Works and Transportation

U.S. House of Representatives

Subcommittee on Economic Development

Hearings on "Investment in America's Infrastructure: Short and Long-Term Strategies"

January 15, 1993

Statement of Robert Eisner

Northwestern University

Statement of Robert Eisner*

Mr. Chairman and Members of the Committee:

"The Economy, Stupid!" That was the central issue of the campaign that brings Bill Clinton to the White House. In responding, the American people voted for jobs now and for a more prosperous future. To realize both goals we need more investment, public and private, physical and human.

Some say that we cannot act now to realize those goals because of the budget deficit. That assertion simply makes no sense. A large part of the deficit is accountable directly to our slow economy and high unemployment. The CBO indeed estimates that each percentage point of unemployment adds, in the short term, $50 billion to the deficit, with the amount growing over time as additional deficit adds more to debt and future interest payments.

If unemployment in 1993 were merely back at its levels of the beginning of the Bush Administration, the deficit would be $100 billion less and by 1996 it would be some $130 billion less. Virtually all of the Clinton-Gore commitment to deficit reduction could be realized by that minimal reduction in unemployment. Achieving the four percent rate that has long been our target, or a three percent rate such as during the Vietnam war, could bring an even greater reduction in the deficit along with further increases in productive public investment to raise our future standard of living and that of our children and grandchildren.

One may well argue that a responsible deficit target, similar to responsible targets for private business and households, is that debt over the long run grow no faster than income. In periods of recession it may and almost certainly should grow faster. If there is need for major investment it may grow faster. It is instructive to note what this criterion implies for our current situation, as shown below:

Deficit with Constant Debt-to-GDP Ratio,
Projected Deficit and Deficit with Two Percentage Points Less Unemployment

	Debt	GDP	Ratio
1992 (estimated)	$3,000b	$6,000b	0.5
7% Growth	210b	420b	0.5
1993	$3,210b	$6,420b	0.5

Deficit = Increase in Debt = $210b

Latest OMB projected 1993 deficit:	$327 billion
Projected deficit with 2 percentage points less unemployment:	$227 billion

*William R. Kenan Professor of Economics, Northwestern University and past president of the American Economic Association.

In December of 1991 before the House Ways and Means Committee and again, in March 1992, in testimony before this Committee, I criticized sharply reluctance to move to stimulate the economy. I said last March:

> We are now again offered scattered signs of some recovery. Federal Reserve Chairman Alan Greenspan sees glimmerings of light. But the national overall unemployment rate rose another notch in January, to 7.3 percent, its highest level in more than six years...

Michael Boskin, the distinguished outgoing chairman of President Bush's Council of Economic Advisors, now states, according to the New York Times (January 13) that "he had wanted to take more aggressive steps to spur the economy's recovery from recession..." The Times adds, "Until today, it had not been so clear that the Chairman by late 1991 was actively urging greater stimulus for the lagging economy, though with little effect." The Times further quotes Mr. Boskin as indicating that President Bush "made a 'courageous' decision to ride out the rough period" without "more aggressive" stimulus measures. It adds, "'It was a close call, economically,' Mr. Boskin said, indicating that he thought an extra boost might turn out to have been unnecessary but would have posed little risk and thus 'perhaps the political outcome would have been different.'"

I joined with a number of distinguished economists at the economic conference in Little Rock last month in support of a significant stimulus package now. I hope this advice will have more effect than did Mr. Boskin's. If the Congress and the Clinton Administration fail to put through an adequate program to restore jobs and prosperity to the American economy, the political outcome may prove, from their viewpoint, equally unfortunate. More fundamentally, the outcome for the American people will be dismal.

Our latest figures on national unemployment, for December 1992, again put the rate at 7.3 percent. Again we see scattered signs of recovery but no basis for anticipating that the economy by itself will show any significant reduction in unemployment. Indeed the OMB's newest, just released deficit projections are based on the "Blue Chip" private forecasters' anticipations of an unemployment rate averaging 7.2 percent for all of calendar 1993!

To allow current unemployment rates to persist is not only cruel to those who suffer directly. It entails a colossal loss to the nation. Our GDP is running some $400 a year below normal. We are losing $100 billion a year of gross private domestic investment. We are losing countless billions more in public investment as states and localities across the country, strapped for funds in a recession that caps years of increased burdens as a consequence of Federal actions, are forced to curtail even necessary services.

In a statement to the House Ways and Means Committee in December 1991, which I repeated before this Committee last March, I recommended, in the way of immediate action:

> Release and appropriate government funds as quickly as possible for repair and construction of roads and bridges, airports and sewage systems, education, health care, research, crime fighting and reconstruction of our decaying cities. A massive program of public investment would be the surest way out of the current recession and would at the same time add to our future welfare.

That recommendation, I believe, remains very much in order. With a new Congress and a new Administration, I would hope that it can be acted upon promptly.

As an anti-recession device, increased public works spending, unlike general tax cuts and some other measures proposed to stimulate the economy by bringing about more private spending, can be focussed directly on target. If more funds are given to desperate states and localities to finance more public works spending -- or more spending for police or for teachers to finance a longer school year -- it is relatively simple to see to it that it does result in more spending, more output of goods and services, and more jobs.

While wasteful spending should, as far as possible be avoided -- and proclivities to pork resisted -- newly released OMB tables indicate the magnitude of productive spending that might be undertaken. We learn, for example, that projected Federal expenditures for roadways and bridges are $17.6 billion in 1993 and $17.7 billion in 1994, reported in OMB, Budget Baselines, Historical Data, and Alternatives for the Future, January 1993, Table C-4, page 510. On the next page we learn that the "Annual cost to maintain overall 1989 conditions on highways eligible for Federal aid" had been put at $31.2 billion 1989 dollars and for bridges the cost was set at $4.2 billion 1989 dollars. These total some twice the actual projected spending. In current dollars the requirements would clearly be more. And that is just to maintain 1989 conditions, not to improve our transportation network.

I should like now, though, to set forth a comprehensive stimulus package, drawing upon recommendations I conveyed to President Clinton and members of his economic team as a follow-up to the Little Rock conference. It includes considerably more than public infrastructure investment, which is, however, an important component of the package.

A Program for Jobs, Investment in the Future and Long-Term Deficit Reduction

1. **Put into place immediately** a potent short-run stimulus package to move the economy as rapidly as possible to reasonably full employment. Properly formulated, this package will not increase the current deficit much and will contribute to long-run growth objectives.

> A. Increase Federally financed physical infrastructure spending, over and above long-run plans, by $20 billion per year over the next two years. This is the most direct method of job creation for the immediate future. It can be extended for future years if continued stimulus seems warranted and additional infrastructure

needs persist. A variety of estimates indicate that infrastructure spending contributes significantly to productivity and more indeed, at the margin, than private tangible investment.

B. Enact a temporary, major, incremental investment tax credit to expire at the end of calendar 1993. This might be as much as 30 percent of expenditures in excess of 1992 investment. By making it that large but restricting its application to increases in investment and giving it a proximate expiration date, it will offer a maximum "bang for the buck." I estimate that it would have a gross cost of about $22 billion but the resultant direct increases to investment and income plus the multiplier effects would increase tax revenues and reduce unemployment benefits so much that the net effect on the deficit would be zero.

C. Offer a temporary, 1993 tax credit or subsidy of $15,000 for purchase of newly constructed dwelling units (not existing homes). This would have a gross cost of $15 billion but again the net budgetary cost should be zero.

D. Reinstitute an expanded version of the old "New Jobs Credit," to subsidize firms that increase their employment by hiring those unemployed or on welfare. This would be a permanent measure and would have a net budgetary cost of $5 billion a year or less, depending on how many people are taken off unemployment and welfare rolls.

The increase in the short-run deficit from these measures would total no more than $25 billion and might well be considerably less if the economy, in response, recovers briskly. And they would in large part be self-expiring, not adding to the long-term deficit and even, to the extent they contribute to future incomes, reducing it. They would also all be consistent with long-term objectives of investing for future growth.

2. To restore confidence that the Federal government will have a responsible long-run fiscal policy, legislate now the following budget commitment that will guarantee that the Clinton-Gore targets of long-run deficit reduction will be met without obstructing the path to economic recovery and the goal of insuring that successive generations of Americans live better than their predecessors.

A. Commit, as a matter of policy and credibility, to the original Clinton-Gore "moderate growth" projections of overall Federal deficits of $174 billion in 1995 and $141 billion in 1996, but adjusted for the new increases in deficit projections by the OMB. Since the deficit was originally forecast by the CBO to be $212 billion in 1995, and $193 billion in 1996, the original Clinton-Gore projections implied additional reductions of $38 billion in 1995 and $52 billion in 1996. Deficit targets should thus entail figures this much below the new OMB "Mid-growth" projections of $265 billion and $241 billion for those years. That means adjusted targets of $227 billion and $189 billion for 1995 and 1996, respectively.

This entails keeping the debt-GDP ratio from rising and in fact (unnecessarily in my view) initiating a gradual decline in that ratio. On the basis of OMB projections of a debt held by the public in 1995 of $3,591 billion 1992 dollars or some $3,886 billion in current dollars, a 1996 deficit of $272 billion would be consistent with a constant debt-income ratio if GDP were growing at 7 percent. For 6 percent growth, the constant-debt-ratio deficit would be $233 billion.

B. Put forth, along with the conventional budget, separate current expenditure and capital budgets to be used as tools to implementing a policy whereby future federal budgets are balanced in their current accounts while net investment is raised significantly, subject to maintaining a non-increasing ratio of debt to GDP.

C. Make clear that the long-run projections will be met for structural deficits by the economically most efficient combination of health care reform, defense expenditure reductions, and other government economies but that, as a guarantee that the commitments will be met, the following simple, conditional, revenue increases will be enacted now to be become effective beginning with the 1995 fiscal year.

> For every $5 billion that the 1995 and 1996 fiscal year deficits are, as of the beginning of the fiscal year, anticipated to be over their targets, there will be a one percent surcharge levied on all income taxes during the corresponding calendar year, if and only if:
>
> (1) Unemployment, measured as the average of the previous three months' labor force reports, is below 5 percent;
>
> (2) Inflation, as measured by the average of the previous three months' Consumer Price Indices, is over 5 percent;
>
> (3) Additional expenditure reductions or other revenue enhancements are not put in place to insure that the deficit targets are met.

This conditional tax surcharge, it is hoped and anticipated, will never come into effect. It would be simple though to legislate now to guarantee to financial markets and political forces that deficit targets will be met if it proves economically desirable to meet them, essentially if the stimulus-supported recovery is going so far that non-trivial inflation due to an overheated economy is developing. The tax increase should not and would not come into effect as long as unemployment indicates excess capacity. It will also not come into effect if there is no indication of inflation due to excess demand, which would, as the Fed consequently tightens the money supply, lead to crowding out of investment. And it would not come into play under these circumstances if the Congress and the Administration can agree on other measures to reduce the deficit.

There is nothing sacrosanct about the particular numbers indicating trigger points. It is important, though, not to institute deflationary action that would slow the economy until unemployment is reduced to at least a minimally acceptable level. As I indicated in my remarks at the economic conference in Little Rock in December, the 6.5 percent rate suggested in some quarters should not be viewed as acceptable. Unemployment was below 5½ percent for each of the years from 1988 to 1990, with no acceleration of inflation. The new Congress, working with the Clinton-Gore Administration, should certainly aim to match and improve on that. A good target, in my own opinion, would be 4 percent and, I might point out again, unemployment hovered around 3 percent at the height of the Vietnam War.

The fundamental point in all of this is that we stay focussed on fundamental goals: jobs, investment in people, and providing for a progressively more productive and prosperous nation. Fiscal responsibility is important; but misguided, premature or excessive efforts at deficit reduction must not be allowed to block the attainment of those goals. Deficit reduction, no matter how many times the contrary is asserted, should simply <u>not</u> be our first priority. Jobs and investment in people and the underpinnings of a growing prosperous economy are.

Reducing our absurdly mismeasured budget deficits should <u>not</u> be on the current agenda and, beyond the reductions that will come from a more prosperous economy, very probably not on our future agenda either. Wasteful public expenditures of all kinds should be avoided. But our economy has for years been starved by a lack of productive public goods. And a growing economy should have more public investment, not less. It is past time to challenge demagogic, know-nothing attacks and restraints on "government spending," regardless of its nature or function.

Economic Policy Institute

STRATEGY FOR PUBLIC INVESTMENT-LED GROWTH

STATEMENT OF JEFF FAUX, PRESIDENT
ECONOMIC POLICY INSTITUTE
BEFORE THE PUBLIC WORKS AND TRANSPORTATION COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

JANUARY 15, 1993

TESTIMONY OF JEFF FAUX

SUMMARY

1. EVEN THOUGH THE RECESSION OFFICIALLY ENDED NEARLY TWO YEARS AGO, THE CONTINUING STAGNATION OF THE U.S. ECONOMY SUGGESTS YEARS OF SLOW GROWTH AND HIGH UNEMPLOYMENT.

2. STIMULATING PUBLIC AND PRIVATE INVESTMENT IS ESSENTIAL FOR RAISING THE GROWTH RATE IN BOTH THE SHORT AND LONG TERM.

3. THE ONLY SERIOUS STRATEGY AVAILABLE IS FOR THE FEDERAL GOVERNMENT TO INVEST IN HUMAN AND PHYSICAL CAPITAL NOW.

4. EXPANDING PUBLIC CAPITAL INVESTMENT WILL INCREASE PRIVATE CAPITAL INVESTMENT BY MAKING IT MORE PRODUCTIVE AND PROFITABLE.

5. EXPANDING PUBLIC CAPITAL INVESTMENT WILL ALSO PROVIDE A MORE EFFECTIVE SHORT-TERM STIMULUS THAN WOULD TAX CUTS, THEREBY RAISING BUSINESS SALES AND GENERATING MORE PRIVATE INVESTMENT.

6. A <u>MINIMUM</u> OF $60 BILLION PER YEAR IN NEW FEDERALLY FINANCED PUBLIC INVESTMENT IS NEEDED OVER THE NEXT 5 YEARS. EVEN THIS AMOUNT WOULD NOT CLOSE THE INVESTMENT GAP BETWEEN THE U.S. AND ITS INTERNATIONAL COMPETITORS.

7. THIS NEW INVESTMENT CANNOT BE FINANCED WITH THE PEACE DIVIDEND ALONE. BECAUSE THE ECONOMY IS OPERATING SO FAR BELOW CAPACITY, BORROWING FOR INVESTMENT IS JUSTIFIED NOW. TAXES SHOULD BE RAISED WHEN WE GET CLOSER TO FULL EMPLOYMENT.

8. AN INVESTMENT STRATEGY WOULD NOT BE INFLATIONARY, NOR ARE THERE ECONOMIC GROUNDS FOR EXPECTING THAT IT WOULD "SPOOK" CAPITAL MARKETS.

9. FAILURE TO EXPAND PUBLIC INVESTMENT NOW WILL INEVITABLY LEAD TO LOWER FUTURE LIVING STANDARDS.

TESTIMONY OF JEFF FAUX

1. The Economic Outlook

The recent announcement that the economics profession considers the economy to have been out of the recession for almost two years is not good news. It destroys the hope that a natural cyclical recovery will bring us back to full capacity operation of the economy. For three years now we have been assured by the conventional wisdom that there was no need to stimulate the economy because by the time any stimulus worked its way through the system we would have recovered from the recession already. According to this view, the high unemployment rate was a "short-term" cyclical problem that would soon go away. The out-going President of the United States, in effect, bet his Presidency on that proposition, and, of course, lost. If George Bush had listened to those of us who were advocating a stimulus two years ago, he might well have been re-elected.

We now know that there is no neat separation between the short term and the long term. These are quite arbitrary definitions. In real world terms, continued slow growth is costing us production, employment and investment, now and in the future.

Thus, if the National Bureau of Economic Research is right in its definition of when the recession ended, we are now in the long term. And unlike what we have been promised, the long term is not a place where full employment has

been restored. It is not a place where the economy is operating at full capacity and thus where we can make deficit reduction our number one priority.

Unfortunately, on our present course, the outlook for reviving growth is not good. Some forecasters think we could be heading for a further slowdown in 1993-94, possibly the third dip of what will turn out to be a triple-dip recession. Although retail sales have strengthened, it is clear that we are not out of the woods yet. Much of the recent spurt of growth has been fueled by elements that are problematic -- total government deficits widened in the third quarter and consumer spending ran ahead of consumer incomes and job creation, a situation that cannot be sustained. This half-hearted recovery is yet to be trusted. That test will come in this quarter, when millions of households who normally depend on a tax refund during this time of year will be disappointed and the effect of recessions overseas will continue to depress exports.

But even the optimists are predicting that growth throughout the rest of the '90s will be considerably below that of the 1980s, even assuming no recession over the next eight years. The latest consensus forecasts predict that the unemployment rate will remain over six percent until 1996 and that by 1998 we will still not have gotten the unemployment rate down to where it was in 1990!

No one knows the future of course, but all the evidence suggests that growth will be slow and that the unemployment rate will be stubbornly high for

the next several years. Moreover, given the poor record of the consensus forecast over the last several years, it would be dangerous and foolish to assume that the CBO, OMB or anyone else's baseline projection represents a reliable guide to the future. It is a question of weighing risks. And in my view, the risks of not administering an economic stimulus are much greater than any threat of overstimulation. Moreover, a stimulus at this point represents important insurance against another unanticipated sag in the economy. This of course is the greatest danger; another setback to economic growth would certainly do long term damage to both consumer and business confidence.

Specifically, I recommend a stimulus package similar to the one proposed last Spring by 100 economists led by Nobel-Prize winners Robert Solow and James Tobin. It called for roughly $50 billion in new public investment spending and another roughly $10 billion in an investment tax credit. I would recommend that the tax credit be temporary in order to create maximum incentives for accelerating private spending for new plant and equipment. The condition of our public physical and human infrastructure suggests that we continue this rough level of new public investment for the rest of the decade. But once full employment is reached, we should pay for it on a pay-as-you-go basis with spending cuts and higher taxes.

The table at the end of this testimony shows how the economic impact of an investment-led scenario compares to the impact of an economic strategy that gives first priority to deficit reduction ("austerity") and one that continues our

current trajectory ("middle-through"). At the end of four years, an investment-led strategy generates $150 billion more in public capital investment and $64 billion in private capital investment than the next best scenario ("muddle-through"). Cumulative GDP comes to $234 billion more, generating about a million more new jobs per year. And by 1996, the deficit would be $278 billion, as opposed to $316 billion for the "muddle-through" scenario. Over eight years, the performance of the investment-led growth path is superior in every category. Among other things, it results in approximately $1 trillion more investment than would otherwise be the case.

2. The Importance of Investment

Economists and historians may disagree over the specific causes of our growth slowdown. But there is virtual consensus among observers of all political and philosophic persuasions that raising the rate of public and private investment is essential for reaching and maintaining higher rates of economic growth.

Investment in plant and equipment is necessary to provide workers with the tools required to produce high quality goods efficiently. Investment in people is necessary to provide them with the skills needed to make effective use of new technologies. Investment in transportation, communication, and environmental infrastructure is necessary for the smooth and safe working together of the millions of enterprises that make up the U.S. economy. Today, America is

considerably behind its major industrial rivals in the share of its economy being reinvested in both public and private sectors. America's private capital stock is aging, its closed factories are not being replaced, its public sector is deteriorating. In effect, we have been living off of the capital investments made in earlier postwar years by an earlier generation. There is obviously a limit to how long one can sustain this behavior, and it is increasingly apparent that we are reaching that limit.

In a modern economy, the shape of a society is determined by the level and pattern of its investment. We can see our fate in these large investment gaps.

3. The Private Investment Gap

On our present path, there is little possibility that the U.S. will close the private investment gap with our major rivals in the foreseeable future. Indeed, during the first five years of the 1990s U.S. business investment in nonresidential plant and equipment is projected to grow significantly more slowly than the rate of the 1980s, which had slowed down from the 1970s, which had in turn slowed down from the 1960s.

Proposals claiming to spur private investment by providing marginal tax cuts on business income cannot hope to induce the kind of massive investment the nation needs to reinvigorate its industrial base. Differential tax rates can influence the choice among investments, but there is no evidence that under the sorts of conditions that presently exist in the U.S. economy, such tax change will

result in a rise in overall investment. The obstacle to raising the rate of private investment is not the tax rate.

Nor is the obstacle the cost of capital. Since the mid-1980s, capital costs have been cut in half for U.S. businesses and there is now virtually no difference between the cost of capital in Japan and the U.S. Still, the growth rate of U.S. business investment has been falling for four years. Most capital spending projections conclude that business investment as a share of GDP in 1994 will remain below where it was in 1990.

Nor, at this point, is the major obstacle to private investment the low U.S. savings rate. Under conditions of less than full employment, investment is not primarily driven by the savings rate, but by expectations of profit from expanding sales, which are a function of overall growth. Moreover, without the prospect of rising sales, capital is often diverted into asset speculation rather than into productive plant and equipment. This occurred in the 1980s when the corporate sector borrowed $1.3 trillion to "invest" in leverage buyouts, junk bonds, and other forms of paper entrepreneurship which left them weakened by a huge debt burden with no increase in productivity to show for it.

This is not to deny that higher savings would not be an important long-term factor in accommodating higher levels of investment once the economy is operating close to full capacity. But today, with the economy running roughly $300 billion below capacity, savings is not the problem.

Business people invest for two fundamental reasons: 1) when they expect that the market for their product will expand, or 2) when they see opportunities to increase the efficiency of production. The reason why there will not be sufficient private investment in the U.S. economy in the short run is that the markets for American made goods are not expanding fast enough. The reason why there will not be sufficient private investment in the long run is that the rate of technological progress and innovation is below that of our competitors.

Raising the rate of private investment will therefore require a comprehensive strategy aimed at both the demand and the supply side -- in the short run, generating customers and in the long run improving our ability to make better products more efficiently.

The immediate question is this: what can we do to stimulate the economy in the short run that will also help solve our longer term structural problems?

The most sensible answer is a multi-year expansion of public investment in human capital, infrastructure, and civilian technology beginning now. Increased public investment is not the only answer to our economic maladies. In the short term, we need to continue stimulative monetary policy. In the longer term, industrial, trade and tax policies need to be improved. But under current circumstances, reversing the decline in the rate of public investment is the single most important step we can take toward restoring America's economic health -- including raising the rate of private investment.

4. Public Investment: Long Run Benefits

Today, the rate of public investment in both physical and human capital is clearly inadequate. Between 1950 and 1970, the civilian public physical capital stock grew at an annual rate of four percent. Since 1970 it has averaged 1.6 percent, reflecting substantially lower rates of growth at federal, state, and local government levels. Again, while the U.S. was cutting back on its public capital investment, our major competitors have been increasing theirs at a higher rate. Japan, for example, invested 5.1 percent of its GNP in public physical infrastructure between 1973 and 1985, while the corresponding figure for the U.S. was 0.3 percent.

Research has shown a strong association between productivity and infrastructure investment among the group of seven advanced industrial countries. In the U.S., recent research suggests that each additional dollar of public infrastructure investment raises private investment by 45 cents. If, since 1970, the U.S. had maintained the 1950s and 1960s share of GNP for core infrastructure (roads, bridges, airports, water and sewer systems, etc.), productivity growth would have been 50 percent higher; the average profit rate would have been 22 percent higher; and the rate of private investment would have increased by 19 percent.

The list of the returns offered by investment in both physical and human infrastructure is long and the evidence is clear. Statisticians may quibble with

the precise estimates, but we know the relationship between public investment and long-term growth is positive and strong.

In 1989, the Economic Policy Institute sponsored a public statement signed by over 325 economists, including six Nobel Prize winners. It described a growing Public Investment Deficit that "will have a crippling effect on America's future competitiveness." According to the economists:

> Just as business must continually reinvest in order to prosper, so must a nation. Higher productivity -- the key to higher living standards -- is a function of public, as well as private, investment. If America is to succeed in an increasingly competitive world, we must expand efforts to equip our children with better education and our workers with more advanced skills. We must assure that disadvantaged children arrive at school age healthy and alert. We must prevent drug abuse and dropping out among teen-agers. We must fix our bridges and expand our airports. We must accelerate the diffusion of technology to small and medium sized business.

Since then the situation has gotten worse.

Federal spending for domestic investment programs has been in a sharp decline for a dozen years. Projections based on the current budget agreement suggest continuing decline in these areas. The definition of investment used is narrow; it does not include spending on health, housing, environmental cleanup, and other areas of social need which also add to the nation's economic strength.

States and localities have not been able to pick up the slack. Education spending by states rose somewhat during the 1980s, but not enough to compensate for the federal cutbacks. Moreover, the increased state and local spending seems to have been less targeted on the disadvantaged, whose needs

for resources are greatest. At any rate, the U.S. ended the decade spending proportionally less on grades K-12 than its major international competitors. State and local spending for infrastructure actually declined over the period, and there was virtually no effort to raise state and local spending for training and civilian R & D, which have traditionally been federal functions.

A survey by EPI of sector-by-sector needs in 1991 (see "Increasing Public Investment", Jeff Faux and Todd Schafer, EPI, 1991) concluded that it would take a minimum of over $60 billion additional spending per year just to keep basic human and physical infrastructure from deteriorating further. A more determined program to repair the damage from a decade of neglect and to begin closing the public investment gap between ourselves and our trading partners would cost $125 billion annually -- roughly double our present spending level. Welcome increases in a variety of investment areas (e.g., last year's Highway Bill) since the survey was conducted have reduced the investment gap only slightly.

These numbers may well be conservative. Economist Robert Heilbroner points out that a quadrupling of public investment would be required to put the U.S. on a par with the performance of Germany and Japan. This would roughly equal the share of GNP devoted to such investment in the 1950s.

Any long-term public investment program should not concentrate on investment projects of the past. In fact, the point of an investment strategy is to support the economy of the future. Thus, a transportation infrastructure program should be aimed at the technology of the 21st century, such as high

speed rail transportation, electric cars, automated highways, vertical lift aircraft, etc. Not only would this provide the nation with a more efficient way of moving people and merchandise, it would generate enormous private investment opportunities to develop technologically advanced American firms who can compete in world markets.

5. Public Investment: Short Run Benefits

Like a recession, the current economic stagnation is an ideal time to begin a public sector reinvestment program. A fiscal stimulus is obviously needed to return the economy to the rate of capacity utilization roughly measured by an "official" unemployment rate of five percent that existed before the economy slowed down in 1989. The overhang of debt and the financial disarray caused by the policies of the last two administrations have rendered monetary policy too weak to stimulate a healthy recovery by itself. The past two years have proven that. Neither can we expect an export-boom to create the number of new jobs needed.

More money must be spent somewhere in order for the economy to recover in any acceptable way. Consumers aren't spending because their incomes are stagnant, they fear for their jobs and they are deep in debt. Business isn't investing because consumers aren't spending. Foreigners aren't clamoring to buy our goods; indeed, when consumer buying recovers our trade balance will worsen. Financially strapped state and local governments are cutting spending

and raising taxes. This leaves the federal government as the only potential source of significant new spending.

Last year, 100 prominent economists called for a strong fiscal stimulus to the economy as the only way of avoiding short- and long-term malaise. The inability of the anemic recovery to lower the unemployment rate significantly since then has underscored their point. As recommended by the economists, based on the average stimulus provided in previous post-war recessions, the present situation justifies an increase in spending of $60 billion, which is equal to roughly one percent of GDP.

As a macroeconomic stimulus, increasing public spending is superior to cutting taxes for either business or middle class consumers. Cuts in capital gains taxes, for example, will not have much of an energizing effect when demand is weak. In today's economy, firms are not generally inspired to invest because of changes in tax rates, but when they see customers -- either business customers or consumers -- coming in the door to buy their goods or services.

Neither are middle class tax cuts the best way to restimulate immediate demand. Although most of a permanent tax cut will be spent in the long run, the evidence is strong that in the first year of either a permanent or temporary tax cut, most of the increase in disposable income (the economic models we work with suggest about 65 percent) would be used to pay off debts or saved, and therefore not enter the spending stream. Thus, the stimulant is muted when it

is most needed. Moreover, a substantial share of the induced spending that does occur would be siphoned off in the purchase of imports.

Compared with tax cuts, increased public domestic spending -- primarily through some form of emergency revenue-sharing for state and local governments -- would provide a faster, more potent stimulant. It would directly reemploy more people now out of work -- not just in the public sector but in hard-hit sectors such as construction as well. It would also have the added effect of helping out financially crippled states and localities. <u>Because public domestic spending works more powerfully on the economy, it would require a smaller increase in the deficit to achieve a given stimulus than would a tax cut.</u>

The conventional objection to public spending as an anti-cyclical measure is that it takes too much time for the actual spending to materialize (projects must be designed, contracts awarded, etc.). But today state and local governments have substantial numbers of ready-to-go projects that have been put on hold because of the recession-induced decline in tax receipts (construction projects abandoned, schools and training centers shut down, infrastructure repairs planned but not completed). The fiscal squeeze has left states and cities with a capacity to absorb and disburse funds quickly.

A middle class tax cut is certainly justified on fairness grounds, given the upward redistribution of income and wealth that occurred in the 1980s. But choices must be made. And it is important to understand that <u>the fundamental income problems of this nation's working people are not rooted in tax policy</u>. For

example, only one-sixth of the 1977-90 redistribution of income from the bottom 80 percent of families to the top 20 percent was the result of tax changes. The bulk of the problem of declining real wages and stagnant incomes lies in the fact that the economy is creating lower paying jobs. This in turn is a function of the slowdown in our productivity and the decline in our competitiveness. We cannot solve these more deep-seated problems without increasing investment in both the public and private sector. Likewise, a shift in business taxes, to encourage a better allocation of capital toward longer term productive investment and to discourage short-term horizons, makes sense. But this too should more properly be done on a revenue-neutral or better yet, a revenue-generating basis.

6. A Public Investment Strategy for Growth

Within the framework of the current budget agreement, the nation is positioned to suffer a widening of the public investment gap -- which inevitably means a further deterioration in competitiveness and living standards.

Over a five year period, raising annual public investment to the minimum $60 billion required to keep us from falling further behind will cost roughly $325 billion in current budget authority.

Many have assumed that the peace dividend from cutbacks in military spending could be available to pay for much of it. Indeed, I have suggested in the past that it would make sense for the peace dividend to be dedicated as a public investment fund, which could be borrowed against now when the

stimulus is needed and paid back in the out-years when the bulk of any peace dividend would be realized. In any case, additional funds will be needed, as the mid-range of peace dividend proposals in the Congress seems to be roughly $150 billion in budget authority over five years. (See for example, proposals by Senators Sarbanes, Sasser and Kennedy). More dramatic military cuts, however, like those proposed by Brookings' scholar John Steinbruner or new House Armed Services Committee Chairman Ron Dellums, would produce roughly the savings necessary to finance a serious investment program.

Undoubtedly, some savings can be made by cutting other domestic spending. But domestic discretionary spending has been sliced thin, and after almost 12 years of conservative government, there are not very many cuttable programs that would yield large savings. In terms of entitlements, the biggest program, social security, already pays for itself and has the support of the overwhelming majority of Americans. Medicare and Medicaid are part of the problem of the overall health care system which must be completely overhauled just to prevent costs from further draining the public treasury.

Thus, we must face the brutal fact that if we want to increase investment in the U.S. economy, funds will have to be borrowed or taxed -- or both.

Borrowing for capital investment -- either directly or through government guarantees -- is as sensible for governments as it is for business or individuals. States, localities, and other nations typically operate with capital budgets which are separated out from operating budgets.

Although the U.S. government lacks a capital budget, it certainly could apply capital budget principles to the spending choices that it faces over the next few years. Sensible rules of both accounting and economics would suggest that the government should borrow for its investment programs in a time like the present when unemployment is high and the economy needs a net stimulus. But as the economy moves toward full capacity and inflationary pressures develop, more of the investment budget should be supported by taxes.

As suggested, raising taxes is not appropriate when the economy is suffering from weak demand, as it is now. But over the long run, higher taxes will be needed to support a sustained public investment program. Moreover, the U.S. as a whole is undertaxed. If the U.S. tax share were equal to the average share of OECD nations, we would be raising more than $400 billion in additional federal, state, and local government of that revenues. Under current proportions, 60 percent would be federal.

The solution to both the problem of financing and the need for a fiscal stimulus is for the federal government to borrow for a public investment agenda in the short run (roughly the next two years) and, as the economy picks up speed and begins to move toward full capacity, shift to tax based financing.

New outlays would begin at the rate of $60 billion a year -- roughly the <u>minimum</u> needed to keep the nation from adding to its investment gap. This is also approximately the average fiscal stimulus (1 percent of GNP) provided by the

federal government in the last six recessions. This would imply an outlay of about $30 billion in the remainder of fiscal year 1993.

In order to accommodate the urgency for stimulus now, the initial $30 billion would be spent in the form of emergency general revenue-sharing to replace the fiscal drag resulting from state and local cutbacks and tax increases. To avoid bureaucratic slowdown, there should be minimal restrictions of how the money could be spent. There is some risk that not all the money would be spent and not all that is spent would go for investment-type programs. But from what we know of the inventory of needs at the state and local level we can have some confidence that the bulk of the spending would go to bring back teachers to school, reopen training centers, and complete transportation and other public works projects that would raise the nation's longer term productivity and competitiveness. Even if there is "leakage" to other programs, the spending would still counteract the current contractionary actions of the states and localities.

The investment budget for Fiscal 1994 and thereafter would be more restricted and targeted by Congress and the Administration to assure that it is being spent for investment purposes. Requirements for local contributions would be strengthened.

The stimulus to spending would quicken economic growth beyond that now projected by CBO and other forecasters. As the unemployment rate dropped and industry began to approach capacity, it would then be appropriate to

steadily raise tax revenues that would be dedicated to the investment spending. We would also expect that tax revenues would increase as a consequence of economic growth. This additional revenue could be used for investment or to begin to reduce the deficit in the outyears.

7. Expected Outcomes

There are three primary alternatives for approaching the economy of the 1990s. The first, labeled *Muddle-Through*, is a stay-the-course and hope for the best approach. It assumes that tinkering is undertaken only on the margin. The second, labeled *Austerity*, is a Perot-style assault on the deficit that calls for belt-tightening as a necessary precursor to growth. The third, called *Investment*, is the strategy essentially outlined in this testimony.

The economic outcomes offered by these alternatives differ dramatically. *Muddle-Through* offers a decade of continued economic malaise as outlined in OMB's *Baseline Estimates* document: sluggish growth rates, high unemployment, and a continued federal deficit problem.

Austerity, by contrast, offers deficit reduction, but at a high price: an economy that is growing at less than two percent a year and an unemployment rate over six percent throughout the decade. These economic costs conspire against the deficit-cutting goal, keeping revenues down and entitlement spending up. In fact, the deficit would never dip below about two percent of GDP, and would begin growing again at the end of the decade.

The best results are offered by the *Investment* alternative. By the end of the decade, this option offers an economy 5% to 7% larger than the alternatives. In the meantime, the unemployment rate would be sustainably below six percent by 1994 with little inflation in sight. Interestingly, this option offers the greatest hope for long-term deficit reduction as well, thanks to the higher real growth rate.

8. Possible Objections -- and Answers

A. Won't this be inflationary and therefore "spook" capital markets?

There is no current inflationary threat to the economy. We are currently operating at roughly $300 billion below capacity. An injection of $60 billion into the spending stream should have no more inflationary effect than if consumers decided themselves to spend an equivalent amount -- which Wall St. would surely welcome. In fact, as indicated above, government spending will be less inflationary because it will tend to directly reemploy the unemployed rather than simply increasing the after-tax income of those who are already earning a paycheck. Moreover, over the longer run, public investments add to supply capacity which helps resist inflation.

The presumed effect of a higher deficit on financial markets is primarily a guess as to what the Federal Reserve will do. Since the Fed has consistently overcompensated for inflation fears by keeping interest rates high, and has signaled that it will raise interest rates as soon as the economy strengthens a

little, market anxieties are understandable. But these anxieties are as much, or more, a forecast of Federal Reserve interest rate policies as they are of future levels of inflation. If economic policy is paralyzed because Congress and the President are afraid that the Fed will cut off growth with higher rates, then the answer is not to delay the growth stimulus, it is for both Congress and the White House to have a heart-to-heart talk with Alan Greenspan.

B. Why not wait until the budget deficit is eliminated before we increase public investment?

Based on recent projections of the Office of Management and Budget, the deficit will still be nearly 5 percent of GDP by the turn of the century. The notion that we must first eliminate the federal deficit (or, as some would have it, wait for a budget surplus) before expanding public investment thus condemns us to continued disinvestment in the public sector for the rest of the decade. The result will be further erosion in living standards and competitiveness.

The economics of this policy are perverse. We are told that public investment must wait for deficit reduction because of the need to expand national savings, which at some unspecified time in the future the private sector will use for investment. But public investment is as crucial to the economy as is private investment. Moreover, unless we increase public investment, it is unlikely that our hopes for private investment will be realized, no matter what happens to the deficit.

C. Won't this "crowd out" private investment?

Fears that at some vaguely defined time in the future private investment will be "crowded out" by a relatively small increment to the national debt have little basis in economic analysis. Indeed, recent history shows little evidence of any crowding out effect. For example, interest rates have declined substantially over the past two years in spite of consistent increases in the federal deficit. The future will be determined by what we invest today. Given our current and projected inadequate levels of growth, it is absurd to continue to deny the economy the investment for which it is starved on the grounds that at some future time we may have <u>too much</u> investment demand.

CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
RAYMOND L. FLYNN

**TESTIMONY OF BOSTON MAYOR RAYMOND L. FLYNN
PAST PRESIDENT
UNITED STATES CONFERENCE OF MAYORS
TO THE
HOUSE COMMITTEE ON PUBLIC WORKS
WASHINGTON, D.C.
JANUARY 15, 1993**

SINCE THE NOVEMBER ELECTION, THERE HAVE BEEN DOZENS OF STORIES IN THE MEDIA ABOUT THE SO-CALLED "END" OF THE RECESSION AND THE PRIORITY OF LOWERING THE FEDERAL BUDGET DEFICIT. MOST OF THESE STORIES ALSO EITHER DIRECTLY CRITICIZE PRESIDENT-ELECT CLINTON'S "REBUILD AMERICA" PLAN TO INVEST IN OUR INFRASTRUCTURE OR URGE HIM TO SCALE THIS PROGRAM BACK DRAMATICALLY.

AS A MATTER OF FACT, THESE STORIES SOUND VERY SIMILAR TO WHAT MR. DARMAN WAS TELLING CONGRESS AT THIS TIME A YEAR AGO -- THAT THE WORST WAS OVER AND NO ECONOMIC STIMULUS WAS NECESSARY TO RESCUE THE AMERICAN ECONOMY OR THE AMERICAN PEOPLE FROM OUR EXTENDED RECESSION.

WELL, IF THAT'S WHAT YOU WANT TO HEAR TODAY, YOU'RE NOT GOING TO HEAR IT FROM ME. BECAUSE I AM HERE WITH A MESSAGE FROM BOSTON'S NEIGHBORHOODS AND FROM NEIGHBORHOODS ACROSS AMERICA -- THE NUMBER ONE ISSUE IN OUR COUNTRY IS STILL THE

ECONOMY; UNEMPLOYMENT STILL IS MORE THAN 7 PERCENT NATIONALLY AND TOO MANY AMERICANS ARE STILL SEEING THEIR JOBS DISAPPEAR TO MEXICO, TO ASIA, OR INTO THIN AIR.

THEREFORE, I AM PROPOSING THAT CONGRESS IMMEDIATELY MOVE TO ADOPT PRESIDENT-ELECT CLINTON'S "REBUILD AMERICA" PROPOSAL -- A $20 BILLION A YEAR PROGRAM FOR EACH OF THE NEXT FOUR YEARS THAT WILL PUT ONE MILLION AMERICANS A YEAR BACK TO WORK AND PREPARE OUR NATION FOR THE ECONOMIC CHALLENGES OF THE COMING CENTURY. AMERICA'S MAYORS WORKED WITH GOVERNOR CLINTON TO PUT THIS PLAN FORWARD, NOW, AMERICA'S MAYORS ARE READY TO WORK WITH PRESIDENT CLINTON, AND WITH CONGRESS, TO TURN UNEMPLOYMENT CHECKS INTO PAYCHECKS.

FOR IF CONGRESS CAN AGREE TO A "FAST TRACK" PROPOSAL FOR SENDING HALF A MILLION OF OUR JOBS TO MEXICO, THEN CONGRESS SHOULD ALSO "FAST TRACK" A PROPOSAL TO CREATE A MILLION JOBS RIGHT HERE IN THE UNITED STATES.

WE NEED PRESIDENT-ELECT CLINTON'S "REBUILD AMERICA" PROPOSAL -- TOO MANY AMERICANS ARE STILL BEING DENIED THE DIGNITY AND THE RESPECT THAT ONLY A JOB CAN BRING.

AND WE MUST NEVER ACCEPT OUR CURRENT UNEMPLOYMENT RATE AS "BUSINESS AS USUAL" IN AMERICA.

I CAN REMEMBER BACK TO THE SIXTIES, WHEN I WAS GRADUATING FROM COLLEGE, AND AN ACCEPTABLE RATE OF UNEMPLOYMENT WAS 2 OR 3

PERCENT. HAS OUR ECONOMY DETERIORATED SO MUCH OVER THE PAST THREE DECADES, THAT WE CAN THROW UP OUR HANDS AND ACCEPT THAT MORE THAN TEN PERCENT OF OUR WORKFORCE IS EITHER UNEMPLOYED, UNDEREMPLOYED, OR WORKING TWO OR THREE JOBS TO MAKE ENDS MEET?

MR. CHAIRMAN, DON'T TAKE MY WORD FOR IT -- TAKE YOUR COMMITTEE TO "HOMETOWN AMERICA". I CAN BRING YOU TO OUR DIGITAL PLANT IN ROXBURY, A 350 PERSON PROFITABLE ENTERPRISE BEING CLOSED DOWN BY THAT COMPANY FOR NO APPARENT REASON. OR I CAN TAKE YOU ACROSS THE STREET TO STRIDE RITE, WHICH IS CLOSING ITS FACILITIES IN ROXBURY AND NEW BEDFORD -- 500 JOBS -- TO RELOCATE IN A STATE WITH THE FISCAL MEANS TO OFFER BIG TAX BREAKS. FINALLY, I COULD TAKE YOU TO ANY LABOR HALL IN BOSTON, WHERE GOOD, HARD WORKING SKILLED AMERICANS HAVE BEEN WAITING FOR MONTHS FOR A MESSAGE OF HOPE -- AND FOR AN INDICATION THAT SOMEONE IS ON THEIR SIDE.

NOW, YOU MAY SAY THAT BOSTON IS PART OF THE NEW ENGLAND ECONOMY THAT WAS PARTICULARLY HARD HIT BY THE NATIONAL RECESSION. BUT THIS PAST FALL, FOLLOWING MY YEAR AS PRESIDENT OF THE UNITED STATES CONFERENCE OF MAYORS, I HAD THE PRIVILEGE OF CAMPAIGNING IN TWENTY STATES AND ABOUT FIFTY CITIES AS NATIONAL CO-CHAIR OF THE CLINTON-GORE CAMPAIGN. I CAMPAIGNED IN WEST VIRGINIA, MR. CHAIRMAN, IN CITIES LIKE WEIRTON AND WHEELING, AND WHEN I TALKED ABOUT THE CLINTON PLAN TO INVEST IN OUR NATION'S INFRASTRUCTURE -- PEOPLE RESPONDED. THE SAME WAS TRUE IN SCRANTON, PENNSYLVANIA; BUTTE, MONTANA AND FLINT,

MICHIGAN -- I MET AVERAGE AMERICANS IN ECONOMIC TURMOIL -- PROUD PEOPLE WHO DIDN'T WANT WELFARE OR FOOD STAMPS -- THEY WANTED WORK.

AND THAT IS WHY I AM HERE TODAY -- NOT FOR SOME MAKE WORK PROGRAM TO PAD GOVERNMENT PAYROLLS, BUT FOR A PROGRAM THAT WILL REBUILD THE AMERICAN ECONOMY -- FROM BOSTON TO BUTTE, AND FROM SCRANTON AND WHEELING TO THE ECONOMICALLY DEVASTATED CITIES OF CALIFORNIA.

WE ARE CALLING FOR A PROGRAM THAT WILL PUT ONE MILLION AMERICANS TO WORK IN PRIVATE SECTOR JOBS BY THIS SUMMER, AND WE ARE CALLING ON CONGRESS AND THE NEW ADMINISTRATION TO "FAST TRACK" THIS REBUILD AMERICA PROPOSAL. AMERICA'S CITIES ARE "READY TO GO". NOW.

I WOULD LIKE TO SUBMIT FOR THE RECORD A COPY OF A REPORT THAT I RECENTLY SENT TO MR. THOMAS McLARTY, WHO WILL BE CHIEF OF STAFF IN THE CLINTON WHITE HOUSE. THE REPORT IS CALLED "BOSTON: READY TO GO" AND IT DETAILS OUR SHORT TERM STRATEGY FOR PUTTING PEOPLE TO WORK BY THIS SUMMER, AS WELL AS OUR LONG-TERM PLAN FOR INVESTING IN ECONOMIC DEVELOPMENT, IN THE ENVIRONMENT, AND IN TRANSPORTATION STRATEGIES THAT WILL BRING PEOPLE TO JOBS AND JOBS TO PEOPLE.

THIS REPORT IS OUR CONTINUATION OF THE WORK DONE LAST YEAR BY THE MAYORS CONFERENCE TO QUICKLY COMPILE INFORMATION ON

"READY TO GO" PROJECTS FOR SENATORS JIM SASSER AND PAUL SARBANES. THAT LIST OF OVER 7,000 PROJECTS IN 504 CITIES GAVE YOU AN INITIAL IDEA OF WHAT COULD BE DONE GIVEN A SAMPLING OF CITIES. NOW, ONE YEAR LATER, MY CITY IS ABLE TO GIVE YOU BOTH A SHORT TERM ESTIMATE OF "READY TO GO" PROJECTS, AS WELL AS OUTLINE A LONG-TERM ECONOMIC INVESTMENT PARTNERSHIP PROPOSAL.

WE IN BOSTON HAVE A TOTAL OF $92.7 MILLION IN INFRASTRUCTURE PROJECTS THAT CAN GO FORWARD IMMEDIATELY, CREATING 4,000 CONSTRUCTION JOBS. WE RECOMMEND THAT WHILE CONGRESS IS CONSIDERING THIS LEGISLATION, THAT THE NEW ADMINISTRATION DESIGNATE AN AGENCY TO PROCESS "READY TO GO" APPLICATIONS IN ANTICIPATION OF THIS BILL. IF WE ALL DO OUR PART -- WITH CONGRESS ENACTING LEGISLATION BY MARCH 1; THE ADMINISTRATION MAKING AWARDS BY APRIL 1, AND CITIES GOING TO CONSTRUCTION BY JULY -- WE'LL HAVE CONVINCED THE AMERICAN PEOPLE THAT GOVERNMENT -- AT EVERY LEVEL -- CAN REALLY GET SOMETHING DONE.

NOW, THE CLINTON PROPOSAL, WHICH WAS DERIVED IN GREAT PART FROM THE MAYORS' SEVEN POINT ECONOMIC RECOVERY PLAN, GOES BEYOND FUNDING "READY TO GO" PROJECTS. IT ALSO DRAWS FROM THE $80 BILLION PLAN JAPAN PUT FORWARD LAST SPRING -- TO INVEST IN HIGH SPEED RAIL, ENVIRONMENTAL TECHNOLOGIES AND IN CRITICAL ECONOMIC DEVELOPMENT PROJECTS. WE AGREE WITH THESE PRIORITIES. IN BOSTON, WE PROPOSE TO TRANSFORM A 200 ACRE PARCEL AT THE FORMER BOSTON STATE HOSPITAL INTO AN "ECONOMIC

DEVELOPMENT ZONE" THAT WILL CREATE 4,500 PERMANENT JOBS AND LEVERAGE $190 MILLION IN PRIVATE INVESTMENT. ALTOGETHER, WE PROJECT THAT $622 MILLION IN ADDITIONAL INFRASTRUCTURE DEVELOPMENT FROM 1993-1997 WILL GENERATE OVER 35,000 NEW PERMANENT JOBS FOR BOSTON AND A STRONG ECONOMIC REVIVAL FOR OUR REGION.

AND YOU SHOULD KNOW THAT IN BOSTON, WE HAVE DONE OUR PART, EVEN IN LEAN TIMES, TO INVEST IN OUR INFRASTRUCTURE. WE ARE IMPLEMENTING A ONE BILLION DOLLAR CAPITAL PLAN THAT FORTUNE MAGAZINE CITED WHEN RATING BOSTON AS ONE OF THE TOP CITIES IN THE COUNTRY IN WHICH TO DO BUSINESS. AND ONE OF THE FASTEST GROWING BIOMEDICAL FIRMS, GENZYME, LOCATED ITS WORLD HEADQUARTERS IN BOSTON BECAUSE OF OUR INFRASTRUCTURE COMMITMENTS.

NOW, WE ALSO PROPOSE THAT SOME OF THE "REBUILD AMERICA" FUNDING COVER THE SKYROCKETING COST OF ENVIRONMENTAL MANDATES. YOU ALL REMEMBER THE BOSTON HARBOR PROJECT FROM THE 1988 CAMPAIGN, BUT DO YOU ALSO KNOW THAT THE FEDERAL COMMITMENT TO CLEANING UP THE HARBOR COMPRISES ABOUT FIVE PERCENT OF THE TOTAL COST? MOST OF THE COST IS BORNE BY LOCAL RESIDENTS AND BUSINESS -- WITH THE RESULT THAT WATER AND SEWER RATES ARE EXPECTED TO INCREASE OVER 700 PERCENT FROM 1985 TO THE YEAR 2000 -- FROM AN AVERAGE OF $135 A YEAR TO AN ANNUAL RATE OF $1,100. WE HAVE REACHED THE POINT WHERE SOME PEOPLE ARE PAYING AS MUCH FOR WATER AND SEWER CHARGES AS THEY ARE FOR PROPERTY TAXES.

AND WE IN BOSTON ARE NOT ALONE -- OTHER MAJOR METROPOLITAN AREAS FROM NEW YORK AND NEW BEDFORD TO SEATTLE AND SAN DIEGO FACE MASSIVE RATE INCREASES FOR CLEAN WATER ACT COMPLIANCE. MANY MORE COMMUNITIES WILL FACE NEW COSTS UNDER ADDITIONAL ENVIRONMENTAL MANDATES, SUCH AS THE SAFE DRINKING WATER ACT AND THEY WILL RAISE THEIR RATES ACCORDINGLY AS WELL.

I KNOW YOU HAVE A TOUGH JOB AHEAD OF YOU, AS YOU ARE PRESSED TO REVIVE THE ECONOMY, REDUCE THE DEFICIT AND RESTORE CONFIDENCE IN OUR NATIONAL GOVERNMENT -- ALL AT THE SAME TIME. BUT I KNOW THAT AN AMERICA WHERE EVERYONE HAS A SHOT AT A DECENT JOB IS AN AMERICA THAT WON'T HAVE TO SPEND AS MUCH ON WELFARE, OR PRISONS, OR DRUG TREATMENT, OR HEALTH CARE. MAYBE WE CAN GET A BETTER HANDLE ON THE GUN VIOLENCE THAT PLAGUES OUR CITIES, OR THE DOMESTIC VIOLENCE THAT HAUNTS CITIES AND SUBURBS ALIKE.

LADIES AND GENTLEMEN -- THE BEST HOPE FOR A STRONG AMERICA SPRINGS FROM PRESIDENT-ELECT CLINTON'S REBUILD AMERICA PROGRAM. PLEASE JOIN AMERICA'S MAYORS, 500 ECONOMISTS, AND THE MILLIONS OF AMERICANS WHO VOTED FOR ECONOMIC CHANGE AND PASS THIS PROPOSAL AS THE FIRST ITEM IN YOUR AGENDA.

Infrastructure and Federal Economic Policy in the 1990s

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I. INTRODUCTION

There is renewed interest in Federal programs to increase spending on infrastructure in the United States; these hearings bear witness to these events. As is often the case in public policy, however, this interest may not be traced to a single source. Rather support for enhanced Federal budget allocations toward infrastructure draws together a variety of arguments. My purpose in this essay is to reflect on three of the most prominent postulates

> i) that infrastructure investment will generate large, permanent gains in productivity and competitiveness,
>
> ii) that we face a national infrastructure crisis characterized by uniformly decaying and congested infrastructure facilities, and
>
> iii) that infrastructure spending is the ideal tool by which to provide short-run stimulus to the economy.

Before beginning, however, it is useful to summarize briefly the conventional standards by which policies toward infrastructure are evaluated.[1]

Infrastructure provision involves three interrelated issues: what projects should the government undertake, should the Federal, state, or local governments have responsibility for projects, and how should projects be financed? It is now broadly recognized that private, competitive markets are not well-suited to providing certain goods and services, and that the government may potentially intervene in a manner that improves the overall functioning of the economy. A leading example of this phenomenon is the provision of what economists refer to as "public goods," and many infrastructure projects have public goods features. Public goods are identified by the degree to which it is possible to exclude some individuals from using the good and the degree to which they provide shared consumption benefits. For example, it is infeasible to exclude a household in the flood plain from the benefits of a flood control dam once it is provided. Accordingly, each resident or firm has an incentive to let others pay for such a project, while still enjoying the benefits. This makes it unlikely that a

private firm could survive by providing flood control services. The use of taxes to finance the project can circumvent the inability to collect revenues privately.

In this example, the benefits are shared across all the protected households, and adding a new household does not subtract from the flood control benefits received by others. Thus in contrast to the purchase of most items, it does not makes sense to charge any single household for the full cost of providing the service; i.e. flood control. Instead, the project (dam) is desirable if the sum of the benefits to all individuals exceed the costs; a decision that requires collective action of the type provided by governments.

Together, these features suggest general principles for evaluating infrastructure projects. A project is desirable if the collective benefits exceed the costs of the project. Measuring benefits appropriately can be very difficult. Infrastructure investments are long-lived, so benefits in both the present and future must be counted. Infrastructure projects affect the population as a whole, so benefits received by many individuals and firms must be calculated and added up on a consistent basis. The list of pitfalls in these calculations is quite long. However, because no individual, household, or firm has an incentive to accurate reflect the net impact of a project, there is no substitute for carefully done benefit-cost analysis of each project.

Next, projects should be provided at the level of government closest to the affected population. The vast majority of benefits from infrastructure projects such as water supply, sewers, and so forth accrue to local residents. Thus, local governments are best positioned to provide such projects. Only in the case of benefits to larger populations, for example with large highways, should higher levels of government take the lead role.

How should projects be financed? Following the rule for selecting projects, if each household or firm is charged according to the benefits received, the aggregate revenues will

cover the costs of providing the project. This provides a general guideline: wherever possible taxes and fees should be set equal to benefits received, with only residual costs financed by general revenues. Combined with reliance on local governments, the logic of these arguments suggests that Federal grant finance should take a residual role wherever possible, and should be used primarily to compensate for the less efficient tax systems at the state and local level.

With these broad principles for evaluating policy options in hand, I turn now to examining recent propositions regarding the role of infrastructure spending in Federal economic policy.

II. THE PRODUCTIVITY EFFECTS OF NEW INFRASTRUCTURE INVESTMENT

Recent interest in the productivity impact of public sector capital stems from the influential work of David Aschauer (Aschauer [1989a, 1989b]), which argues that an important benefit of infrastructure projects is more productive workers and firms. In his, and much of the subsequent research, the center of attention is the relationship between productive inputs -- private capital and labor, public capital -- and economic activity, or output. These studies summarize this relationship with a "production function;" a statistical relationship of the form:

$$q_t = \beta_{0t} + \beta_1 k_t + \beta_2 l_t + \beta_3 g_t + \varepsilon_t \qquad (1)$$

where q_t is the logarithm of private output, k_t is the logarithm of private capital inputs, l_t is the logarithm of labor inputs, g_t is the logarithm of public-sector capital, and ε_t is the residual, unexplained output. The parameters of the production function (β_1, β_2, β_3) measure the contribution of each of the inputs to the productive process. For example, if $\beta_3 = 0$, then investments in public capital have no effect on output or productivity. Further, by entering

the variables in logarithms, the β's may be interpreted as elasticities. To give another example, if $\beta_I = 0.05$, a 10 percent increase in government capital would result in a one-half percent increase in private output. At the heart of the claim that infrastructure spending is the key to faster productivity growth is the notion that β_I is both positive and large.

In early studies of the productivity effects of public capital, Aschauer [1989a] and Munnell [1990a] examined annual, postwar data for the United States to estimate the parameters of such a production function.[2] The results seemingly argue in favor of infrastructure accumulation as a key determinant of productivity growth. Unfortunately, the nature of the data makes it impossible to place much faith in the estimates. During the 1950s and '60s, the economy fared well and, as a result of programs like the interstate highway system, public capital grew rapidly. In the early 1970s, however, productivity growth slowed dramatically. In the absence of large projects and with the maturation of the baby-boom generation, so did government capital spending. Mechanical application of statistical techniques might tempt one to conclude that there was a *causal* relationship running from slower public-sector capital growth to slower productivity growth. More likely, however, is the reverse scenario. Deteriorating economic conditions tightened government budgets and reduced growth of the public capital stock. The result was similar movements in the two series. Indeed, almost every broad-gauged indicator of economic activity contains this sharp break in the early 1970s, and the underlying causes of the slowdown remain unclear.

Searching for convincing evidence, analysts moved to the "natural laboratories" of the U.S.: the states and their governments.[3] Initially, however, these studies largely produced controversy. On one hand, Munnell [1990b] and Garcia-Mila and McGuire [forthcoming] concluded that differences in the amount of state and local government capital were an important source of differences in states' economic performance. On the other hand, Hulten

and Schwab [1978, 1991] found that "residual" state growth -- that not accounted for by growth in firms' capital and labor -- could not be attributed to state-local highways, roads, sewers, and other parts of public capital. Indeed, the residual was at odds with regional patterns of public-sector investment.

In Holtz-Eakin [1992], I argue that the apparent contradiction is easily reconciled. In making comparisons across states, one again runs the risk of reverse causality: successful states have greater resources available for all uses, including government capital outlays. Taken at face value, one might again mistakenly conclude: that greater state and local government capital caused superior economic performance. Thus, statistical techniques used to investigate the productivity effects of infrastructure must be tailored to avoid this pitfall. The approach of Hulten and Schwab [1991] is tantamount to using such a technique. Moreover, direct application of the correct statistical approaches (see below) yields results that suggest no magic from public sector capital spending programs in boosting productivity growth.

To see the argument clearly, modify equation (1) to keep track of states (s) and permit each state to have a different underlying productive ability (f_s). These differences stem from such natural sources as location, climate, and mineral endowments, as well as such inherited features as the pattern of industrialization. The result is a slightly modified production function that looks like:

$$q_{st} = \beta_{0t} + \beta_1 k_{st} + \beta_2 l_{st} + \beta_3 g_{st} + f_s + \varepsilon_{st} \qquad (2)$$

Consider now Table 1, which is drawn from Holtz-Eakin [1992].[4] Column (1) contains the results of the conventional (ordinary least squares) statistical approach to estimating the β's in equation (1). For purposes of this discussion, the key result is that the estimated β_3 is 0.20. Thus, boosting the growth of the public capital stock by 5 percentage

points would increase productivity growth by a full percentage point, a seemingly large impact. However, this result is an artifact of using inappropriately simple techniques.

The problem stems from ignoring the f_i: states with a "big" f_i will have more output and greater incomes (directly from (2)). They are also likely to spend more on public programs, leading to a greater g_{it}. (They are also likely to be better places to live and invest, affecting k_{it} and l_{it} at the same time.) What one "sees" is the positive association between g_{it} and q_{it}, which is mistakenly transformed into a prescription for spending on g_{it} in order to raise q_{it}.

The remainder of the columns of the table are devoted to determining how well this result stands up to closer scrutiny by trying different means to circumvent the presence of the f_i in equation (2). Column (2) shows the results of focusing on *changes* in both sides (2) between 1969 and 1986. Notice that by using changes, the f_i are eliminated. That is, changes over time in each state depend only on the growth of inputs and the parameters, and are independent of (unchanging) differences across states. To the extent that public-sector capital is an important determinant of long-run productivity growth, it seems reasonable to expect that it manifest itself over a period of nearly two decades. What is the result? Looking at column (2), the estimate of the impact of public capital (β_j) is now negative. However, because of the large standard error, one is best left with the conclusion that β_j is essentially zero.

Columns (3) through (6) aim progressively greater extremes of statistical firepower toward the goal of discerning the correct value for β_j. Without belaboring the details, two important conclusions emerge. First, a formal, statistical test strongly supports the presence and importance of the f_i -- states really are different, and these differences complicate the

analysis of their economies[5] Second, and more to the heart of the debate, the single best estimate of the productivity impact of public capital is zero. Indeed, another way to look at the results in this table is that there is only *one* way to get the "big effect" answer. Any other cut at the data suggests that any "smoking gun" in the death of productivity growth does not lie in the hands of infrastructure policy.

It is important to recognize that these results do not imply that the large stock of infrastructure in the United States provides no benefits. Instead, the results say that a broad-based spending program for *additional* infrastructure is unlikely to augment economy-wide productivity growth. This should hardly be surprising. On average, the U.S. has a superb system of highways and roads, modern utilities, and advanced telecommunications systems. The productivity effect of building, say, another interstate highway system could hardly be very great, and certainly not worth the expense.

Further, the very nature of the statistical analyses is to treat all public investments in all locations equally. In this way, they answer the hypothetical question: "What is the effect of randomly dropping another $1 of infrastructure, of any type, anywhere in the economy?" For an infrastructure-starved economy, the answer would be "a lot," but this is hardly the situation in the United States as a whole.

There is an old saying that there are three kinds of lies: lies, damn lies, and statistics. A skeptic might be tempted to relegate the argument thus far to the third category and push forward with a broad-based expenditure program aimed at the U.S. infrastructure. But consider the following upper bound on the growth effects of infrastructure. Suppose that public capital enters on a level playing field with private capital in the aggregate production process ($\beta_1 = \beta_2$), and that labor's share in national income is roughly double that of private capital (roughly in line with the U.S. historic norm). Putting these together implies that

$\beta_1 = 0.50$ and $\beta_2 = \beta_3 = 0.25$. Suppose further that the U.S. devotes an additional $30 billion per year to infrastructure investment, a serious commitment of resources to public capital accumulation. The effect would be to raise the growth of the public capital stock by just under 2 percentage points per year. Using $\beta_3 = 0.25$, GDP growth would be faster by roughly one-quarter of this amount, or in the vicinity of 0.5 percentage points annually. Now, over several decades, a one-half a percentage point increase in growth can make a large difference in living standards. The point is, however, that it takes decades for the effect to cumulate -- there will be no dramatic turnaround in just a year or so -- and that the underpinnings of even this calculation are extraordinarily optimistic.

The logic of this argument is familiar from the debate over the efficacy of private investment incentives: increased investment provides no quick fix for slow growth because it takes enormous amounts of investment to substantially alter the large existing stock of capital. The same truth applies to the public sector as well, so even an unrealistically rosy view of the productivity benefits of public capital does not translate into an instant cure for substandard growth.

It is useful to consider the likely productivity effects of infrastructure from another perspective, that of competing uses for scarce capital. At one level, the argument is simple. If additional infrastructure will have negligible productivity effects, private investment simply *has* to be better. Indeed, public investment is even more costly than it might appear because by transferring $1 of investment from the private sector to the public sector, one gives up a productive private investment for nothing in return. Viewed from this perspective, a case can be made for "budgeting" additional private investment by reducing the Federal deficit and thereby freeing up additional capital for use by private firms, rather than by spending on Federal programs.

Importantly, the "zero effect" discussed above is not the key to this argument. Instead, the guiding rule is that the return on private investment exceed that on public investment. Few studies of infrastructure pose the question in this way, instead focusing only on whether public capital has productivity effects at all. In terms of the production function in (1), the ratio of the productivity effect of public versus private capital is given by:

$$\frac{\textit{Public Capital Output Effect}}{\textit{Private Capital Output Effect}} = \frac{\beta_3}{\beta_2}\left(\frac{\textit{Private Capital}}{\textit{Public Capital}}\right) \tag{3}$$

In the research discussed earlier, I estimate that the mean ratio of non-residential fixed capital to state-local capital in the states is in the vicinity of 2. This implies that the estimate of β_3 need be at least one-half that of β_2 for the pure productivity effect of public capital to be larger than that of private capital.[6] Notice that even the upward-biased estimate of β_3 just barely makes the grade. Thus, for the data to reveal a need for greater increasing infrastructure, it is not enough to show a positive productivity effect. Instead, the estimated value of β_3 must meet this more stringent test, which is likely for only the most implausibly optimistic estimates.

III. IS THERE A NATIONAL INFRASTRUCTURE CRISIS?

The preceding section argued against funneling significant new budget allocations toward infrastructure on the grounds of putative productivity benefits. As emphasized, however, the aggregate evidence does not mean that there are no capital expenditure projects that would survive a rigorous benefit-cost examination. When identified, however, these infrastructure projects should not be a Federal government policy concern. Provision of infrastructure has traditionally been the province of state and local governments, on the

grounds that the benefits largely are restricted to local areas, and that local officials are better able to judge the needs and desires of their constituents. There is growing evidence that these governments react sensibly to the economic environment, both in their employment decisions (see, e.g., Freeman [1987], Holtz-Eakin and Rosen [1991]) and in avoiding irrational swings in their capital spending (Holtz-Eakin and Rosen [forthcoming]). Thus, additional resources will be less likely to be wasted if we adhere to the tradition of reliance on local decision-making.

Of course, if all localities face the same difficulties there are gains to a single, comprehensive Federal policy. The evidence indicates, however, that state needs differ greatly. Table 2 is drawn from Holtz-Eakin [forthcoming]. It shows the ranking of states on the basis of the average annual growth rate of their public capital stock from 1961 to 1974, the value of the growth rate over that period, and the subsequent growth rate between 1975 and 1988. The table drives home the range of diversity in the states' experience. It is true -- as has been widely noted -- that there was a decline in the rate of public capital accumulation between the early and later years in the sample; a decline that the evidence presented above suggests is the result of poorer aggregate economic performance. The tendency to focus on the nation as a whole, however, hides the rather pronounced differences in the rate of capital accumulation across the states, with the highest (Alaska) exceeding the bottom end (California) by a factor of roughly 20. Even more interesting, there is little relationship between growth in the early period and growth in recent years. The notion that all parts of the U.S. have been subject to a uniform decline in infrastructure does not square with the facts.

These hearings are a testimony to the fact that productivity is not the only issue involved in infrastructure policy. We have water supply facilities, sewers, roads, wastewater

treatment plants, and other infrastructure in large part because they raise the well-being of our citizens -- not because they make our workers and firms more productive. Thus, one could argue in favor of spending more on infrastructure because of the increase in standards of living that may follow. In this regard, two points are relevant. First, there are many ways to improve living standards, and I see no reason to single out infrastructure for special treatment At the Federal level, infrastructure spending should compete on a level budgetary basis with deficit reduction, or health care costs, or a myriad of other competing needs.

Moreover, as noted earlier nearly all the benefits of infrastructure accrue to local residents, and an important principle of public finance is to match tax burdens with benefits to generate an efficient and equitable financing scheme. In this case, this logic argues for greater local, not Federal, finance of infrastructure. Table 2 is persuasive evidence that desirable local policies will differ greatly across the United States; reliance on a single national policy towards infrastructure accumulation is unwarranted. Proponents might argue, of course, that a Federal policy need not imply a simplistic, equal-division approach. However, to the extent that the end result of a large Federal program is to allocate some part of the budget to most of the states, it would be tantamount to implementing the hypothetical experiment envisioned above: randomly raining infrastructure funding everywhere in the economy, to little effect. The Federal government could fund additional state-local spending, of course, via grants-in-aid. To lead to an efficient use of the funds, however, the evidence suggests that such a program need necessarily avoid restrictions on the use of Federal dollars. That is, an efficient Federal program must leave room for local officials to either cut local taxes or spend the aid to meet other objectives, and these objectives -- which are sensible from a local perspective -- should not be overridden by the provisions of the program.

One common objection to reliance on local decisions for infrastructure spending is the

notion that infrastructure benefits "spill over" from one state or region to its neighbors, thus muddying the clear allocation of responsibilities outlined in the introduction. Operating in isolation, policymakers fail to recognize these extra benefits, leading to underinvestment. The Federal government, the argument continues, is uniquely positioned to solve the problem of uncounted, external benefits by coordinating the investment activities of the sub-Federal governments.

The argument is one part of the textbook tension between the efficiency of a federalist system and the benefits of centralized policies. Unfortunately, when confronted with the data, the textbook argument gets cut short early: there is no evidence of large interstate productivity spillovers. Specifically, in the work discussed earlier (Holtz-Eakin [1992]) I repeated the analysis summarized herein in Table 1, using instead data for eight U.S. regions. In the presence of significant cross-state spillover effects, one would expect that moving from the state level to the regional level would permit one to capture these benefits, thereby resulting in larger effects from public capital.[7] Instead, the estimates are virtually identical to those obtained at the state level, negating the importance of external effects.

IV. INFRASTRUCTURE AND SHORT-TERM ECONOMIC STIMULUS

Most recently, a new argument has been raised in favor of a Federal infrastructure spending program: that it would provide the stimulus needed to recover from the most recent recession. This argument has *nothing* to do with the virtues of infrastructure *per se*. Instead, the benefits of such an approach rely solely on the merits of directly stimulating aggregate demand and employment. It is by now a virtual consensus in the economics profession that fiscal policy is an unwieldy tool for stabilization purposes; monetary policy is generally acknowledged to have advantages in response time and flexibility.

Even among the fiscal alternatives, however, infrastructure is unlikely to be the leading candidate. As noted above, efficient use of infrastructure dollars requires detailed cost-benefit studies at the project level. Thus, the planning requirements of an efficient infrastructure policy are at odds with the timetable of short-run stimulus. To the extent that the demands for quick action dominate, there is pressure to circumvent this type of detailed policy analysis. Moreover, in the end any stimulus effects will fade; the projects are completed and the jobs disappear. Thus, there is no long-run gain to the economy. Worse, if the projects are not carefully chosen we will have squandered valuable capital in exchange for a transitory economic boost.

V. WHAT SHOULD INFRASTRUCTURE POLICY LOOK LIKE IN THE 1990s?

The impetus for substantial new public capital investment hinges on the perception of an outdated infrastructure that is badly in need of repair and overly-congested. Of course, one might argue that this is exactly what to expect when infrastructure -- or anything else -- is free to use, and when there is no incentive to maintain past investments appropriately. From this perspective, the best infrastructure program does not focus on new spending. Instead, the top priority should be to "get the prices right" by charging user fees for infrastructure services in those circumstances where it is administratively feasible to do so. User fees are consistent with the principal of taxation on the basis of benefits received, would serve to reduce excessive demands on the infrastructure, and would provide a secure flow of funds for purposes of maintenance and modernization.

User fees are not the answer to all infrastructure problems, but are the most promising path in the most high-profile of problems: airports, water supply, port facilities, landfills, waste treatment, bridges, and highways. Technological advances in scanners and sensing

mechanisms have eliminated the concern that user fees are impractical and have served to make user fees administratively feasible. It is no longer the case, for example, that charging tolls to control peak congestion automatically backfires by causing endless delays at toll booths. There also has been concern that reliance on user fees would be unnecessarily hard on the poor, but the "fairness" of user fees should be compared to the alternative. Small [1983] points out that highway tolls can make *all* income classes better off, if the revenues are used to lower property taxes, or replace registration and fuel taxes.

Pricing the use of our existing infrastructure efficiently is best viewed as an essential part of any infrastructure spending program. To determine the appropriate size of a project, one must forecast use of the facility, and this is integrally related to the price charged. By revealing the intensity of demand for services provided by public capital, user fees may improve the planning process. Further, when user fees are dedicated to maintenance and modernization, funds will be available for repairs at the appropriate time in the life-cycle of roads, bridges, sewers, and other facilities.

In the past, there has been little or no accounting made for maintenance expenditures, making it impossible to reward timely maintenance, which is typically more cost-effective than new construction. Even worse, for much of the postwar period, Federal policy (via matching grants, especially for highways and water treatment plants) subsidized new investment relative to maintenance. Local governments responded predictably to these perverse incentives with insufficient maintenance and excessive construction plans. While there has been progress on this front in recent years (in, for example, the recent Federal surface transportation bill), a widespread move toward the use of efficient infrastructure prices remains a promising avenue for reform.

VI SUMMARY

The threads of the argument may now be spun together. First, the statistical foundations cannot support the claim that public capital is the key to faster productivity growth in the United States. At the same time, most of the evidence suggests that private investment spending would have larger beneficial productivity effects than new public capital spending -- including evidence previously believed to favor an infrastructure spending program.

Second, productivity benefits are not the only merits to infrastructure. One must consider as well the impact on the living-standards of individuals. Here again, however, it is important to recognize that there are many ways to improve the well-being of U.S. citizens. There is no compelling reason to single out infrastructure for this role; it should enter budgetary decisions equally with deficit reduction, health care, child care, and a myriad of other competing needs. Moreover, to the extent that there are infrastructure needs in the U.S., they differ greatly across the country. Such needs are best addressed in the traditional fashion by state and local governments, with a reliance on finance at the local level. To the extent that the Federal government provides grants to compensate for inefficient revenue systems, it should not embody wasteful mandates or other restrictions on its use.

Third, regardless of the ultimate desirability of short-term economic stimulus, infrastructure spending programs should not be tailored for this task. The timetable of project analysis will interfere with stabilization goals; short-circuiting this analysis raises the likelihood of permanently underutilizing scarce capital funds in exchange for a transitory economic boost.

Finally, the most appealing policies toward infrastructure do not focus on new spending at all. Instead, they should shift the focus toward the efficient use of our existing

public capital stock through user fees to control congestion and wear, and incentives for adequate maintenance. Policies innovations in this direction hold the promise of greater return than those focusing on new spending alone.

Table 1*

Estimates of State Production Function

Dependent Variable:
Log Private Gross State Product

Variable	(1) OLS	(2) LONG	(3) FIX	(4) GLS	(5) IV	(6) HNR
Log Labor	0.497 (0.0144)	0.643 (0.137)	0.691 (0.0262)	0.659 (0.0225)	0.542 (0.0747)	0.911 (0.0530)
Log Private Capital	0.359 (0.0112)	0.504 (0.142)	0.301 (0.0302)	0.361 (0.0233)	0.472 (0.0653)	0.106 (0.0253)
Log Public Capital	0.203 (0.0190)	-0.115 (0.126)	-0.0517 (0.0267)	0.00770 (0.0235)	-0.0150 (0.0660)	-0.102 (0.0606)
Log Private Capital/Labor	--		--	--	--	--
Log Public Capital/Labor	--		--	--	--	--
Time Effects	Yes	No	Yes	Yes	Yes	Yes
State Effects	No	No	Fixed	Random	No	Differences

*For definitions of variables, see Holtz-Eakin [1992]. "OLS" is ordinary least squares, "LONG" is long-differences: 1986 values minus 1969 values. "FIX" is conventional fixed effects estimation. "GLS" is conventional random effects estimation. "IV" is an instrumental variables estimator using other states' data as instruments, and "HNR" is an instrumental variables estimator of a first-differenced equation

***Significant at 1 percent level.
**Significant at 5 percent level.
*Significant at 10 percent level.

Table 2

Growth Rate of State and Local Government Capital Per Capita
(percent per year)

		Annual Growth Rate				Annual Growth Rate	
Rank	State	1961-74	1975-88	Rank	State	1961-74	1975-88
1	Alaska	9.64	3.14	27	Washington	3.36	0.97
2	District of Columbia	6.89	4.01	28	Utah	3.34	1.87
3	Kentucky	5.88	0.80	29	Connecticut	3.33	-0.22
4	Delaware	5.68	-0.62	30	Louisiana	3.20	0.73
5	Wyoming	5.01	2.28	31	New York	3.13	0.52
6	South Dakota	4.92	1.22	32	New Mexico	3.10	0.91
7	Nebraska	4.81	1.64	33	Illinois	3.03	0.74
8	Mississippi	4.65	0.30	34	North Carolina	3.00	1.08
9	Tennessee	4.63	0.26	35	Pennsylvania	2.96	-0.05
10	West Virginia	4.56	0.93	36	Idaho	2.84	0.54
11	North Dakota	4.47	0.75	37	Arizona	2.78	1.81
12	Montana	4.20	0.59	38	Indiana	2.76	0.29
13	Hawaii	4.08	0.90	39	Rhode Island	2.70	-0.35
14	Alabama	4.04	0.54	40	Ohio	2.57	0.46
15	Maryland	4.00	1.44	41	Michigan	2.43	0.03
16	Arkansas	3.98	0.63	42	Oklahoma	2.32	1.00
17	Virginia	3.92	0.37	43	Nevada	2.18	-0.51
18	South Carolina	3.91	1.30	44	California	2.12	-1.40
19	Texas	3.90	1.20	45	New Jersey	2.08	0.72
20	Missouri	3.80	0.33	46	Massachusetts	2.05	0.63
21	Georgia	3.70	1.60	47	Oregon	2.02	0.09
22	Iowa	3.59	1.15	48	Florida	1.93	1.39
23	Minnesota	3.58	0.80	49	Maine	1.92	-0.14
24	Kansas	3.54	0.86	50	New Hampshire	1.87	-0.57
25	Wisconsin	3.52	0.05	51	Colorado	1.65	1.41
26	Vermont	3.38	-1.18		United States	3.08	0.46

Notes

1. Rosen [1992] contains an excellent exposition of the concepts in this discussion. See, especially, chapters 5, 12, and 21.

2. See also Holtz-Eakin [1988, 1989].

3. Other studies looked at cross-national comparisons of productivity growth (e.g. Aschauer [1989b]), but the difficulty in finding comparable data and correcting for vast differences in governmental structures has made for rather unstable parameter estimates (see Tanzi [1990]).

4. See the paper and Holtz-Eakin [forthcoming] for a more extensive discussion of the underlying data and statistical techniques.

5. The test, due to Hausman and Taylor [1981], compares the parameter estimates from the fixed effects estimator to those from the random effects, or generalized least squares (GLS), estimator.

6. This overstates any preference for public investment because it ignores the distortionary costs of raising revenues to finance public capital outlays.

7. It is also possible for the effects to be smaller as one looks at larger geographic areas. One pitfall of local development strategies is that they may attract businesses and workers largely at the expense of neighboring jurisdictions. The right measure of the effect on overall economic growth is the *difference* in productivity in the two jurisdictions, not just the economic growth experienced in the chosen jurisdiction. There have been many careful studies using regional and municipal data (see, e.g., Duffy-Deno and Eberts [1989] and Eberts [1986, 1990a, 1990b]). One must be careful in interpreting in these studies in order to avoid overstating the impact of public capital at the national level.

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Statement of the U.S. Chamber of Commerce

ON: Economic Growth Stimulus

TO: Subcommittee on Economic Development, Committee on Public Works & Transportation

BY: Dr. Lawrence A. Hunter

DATE: January 15, 1993

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

TESTIMONY
on
THE NEED FOR ECONOMIC GROWTH STIMULUS
before the
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
of the
HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
for the
U.S. CHAMBER OF COMMERCE
by
Dr. Lawrence A. Hunter
January 15, 1993

INTRODUCTION

I am Lawrence A. Hunter, Vice President and Chief Economist of the U.S. Chamber of Commerce. On behalf of our 215,000 member businesses, 1,200 associations and 3,000 state and local chambers of commerce, we thank the Subcommittee on Economic Development for this opportunity to present our thoughts on the state of the U.S. economy and the need for a legislative package to increase long-run economic growth.

ECONOMIC PERFORMANCE SINCE 1989

Between 1989 and mid-1992, the U.S. economy struggled, posting real growth averaging only 0.6 percent a year. The economy fell into recession in mid-1990, and since the recession's end early in 1991, the U.S. economy has experienced the slowest post-war economic recovery on record -- growing for five consecutive quarters at a meager 1.5 percent annual rate after adjusting for inflation.

Finally, in the last half of 1992 the economy appeared to regain some of its past vigor. Recent indicators on the health of the economy show definite improvement. Real Gross Domestic Product (GDP) grew at an annual rate of 3.4 percent in the 3rd quarter of 1992. We expect similar growth in the 4th quarter. Retailers posted their best Christmas sales since 1989--a 7 percent increase. Consumer and business confidence have risen since the November election. Employment and industrial production are picking up, albeit at a slow pace. New orders received by manufacturers have increased in recent months. Exports have continued to increase even though some major industrialized countries are experiencing recession. Other aspects of the economy have stopped falling as much or have leveled off. Business failures and bankruptcies are still rising, but only slightly. Debt delinquencies are holding steady. Business lending by banks has stopped falling.

As the new year begins, there is growing optimism about the state of the economy. This newly discovered optimism stands in stark contrast to the mood little more than two months ago, when some analysts and public officials contended that the economy was in such sad shape that extraordinary intervention by the federal government was called for to "jump-start" economic growth. "Pump priming" through increased public works spending to create jobs and fiscal stimulus through tax rebates to spur private consumer spending were being touted widely.

Today, however, many observers, even some of those same advocates of government action, are suggesting that the economic expansion will be self-sustaining and that the preferred policy course is for the federal government to do nothing to stimulate the economy. Some go on to urge Congress and the new administration instead to redouble their efforts to reduce the budget deficit. Yet the choice is not between doing nothing versus enacting a short-term fiscal stimulus package. Neither of these options is the correct one. We must recognize that the economy is woefully under-performing and has been for several years. What we need are permanent policy changes to raise long-term economic growth.

If this were a normal, sustainable recovery, all signs would be pointing upward and the preferred course of action indeed would be for the government to do nothing. Unfortunately, this is anything but a normal, robust recovery.

The economy is doing better now primarily because of temporary factors that soon will wear off. First, the engine of post-recession growth -- consumer spending -- is likely to slow considerably as 1993 wears on. Throughout 1992, decreased income tax withholding, starting in January 1992, increased take home pay. Households were able to pay down debt and increase spending. In effect, there already has been a middle-class tax cut in 1992 that is paying dividends. Unfortunately, by April 15, 1993 the bill will come due. The decreased withholding will result in lower-than-normal tax refunds and higher-than-normal tax payments. Consequently, consumers will have less spending power in early 1993 than they anticipate. Because normal seasonal adjustment factors will anticipate increased consumption, restrained take-home pay will lead to an abnormally low level of measured consumption in the second quarter. A smaller-than-normal rise in actual consumer spending during the second quarter of 1993 will translate into a drop in consumer spending as measured by seasonally adjusted statistics.

Adding to the buoyancy of consumer behavior in 1992 was the aftermath of hurricanes Andrew and Iniki, which produced a surge in household spending on many items such as furniture and appliances which were damaged or destroyed. This surge will peter out in early 1993 returning consumer spending growth on many durable and nondurable goods to less lofty rates. Thus, consumer spending in the first half of 1993 will not be as strong a stimulus to growth as occurred during the last half of 1992. Moreover, because the surge in consumer spending in late 1992 may become part of the seasonal adjustment pattern, normal amounts of consumer spending growth during the last half of this year will be translated into sub-normal amounts of growth in 1993.

On balance, consumer spending has outpaced income growth during the recovery. Unless income growth picks up soon, it is doubtful that recent rates of consumer spending can be sustained throughout this year. Additionally, higher-income people and many businesses came to believe toward the end of 1992 that their taxes would be raised in 1993. Consequently, there was an effort to accelerate reported income into 1992 and divert expenses into 1993, which may contribute to slower-than-anticipated income growth in 1993. This brings into question whether the reported increases in income in late 1992 and the higher tax receipts reported by some state and local governments are sustainable in 1993.

These are some of the key factors contributing to our belief that current economic performance is better than the outlook for the longer-term. Thus, **our forecast is that economic growth will slow by the second half of 1993 unless policy changes are made to generate more economic activity.**

LONG-TERM ECONOMIC OUTLOOK

Today's economic forecasts must be put into perspective. The debate, sometimes heated, among economic forecasters over the outlook for the next few quarters should not obscure the more fundamental consensus that exists among economists on the long-term outlook for the economy. The Chamber forecasts real GDP growth at 2.5 percent for 1993. Just this month, the Blue Chip Consensus forecast (in which the Chamber participates) of the 1993 year-over-year percent change in real GDP rose a tenth of a percentage point to 2.9 percent. The Congressional Budget Office forecasts 1993 real GDP growth at 3.1 percent. The differences in these forecasts result largely from the divergence of views regarding the second half of the year. While the majority of the Blue Chip forecasters foresee rising or constant rates of growth throughout the year, we believe that quarterly economic growth will start out close to 3 percent -- 2.7 percent -- but finish below 2 percent -- 1.9 percent. The details of our forecasts are presented in the table attached at the back of this testimony.

Over the long run, however, economic forecasts tend to converge toward 2.5 percent. In other words, there is a general consensus among forecasters that, over the long-run, the level of economic output will tend to fluctuate around a growth path that would be traced out if the economy grew by a constant 2.5 percent rate of real growth. Consequently, whenever the economy is rising at a rate greater than 2.5 percent, one would expect growth eventually to decline to bring the level of output in the economy back to its sustainable long-run path.

This situation contrasts starkly with the entire post-war period when the economy grew on average by 3.2 percent annually after taking inflation into account. Although the change in real GDP from any one year to the next may be considerably more or less than 3.2 percent, the level of real GDP has oscillated around this trend line -- falling down to it after surges of high growth and climbing back up to it after sinking into recession. This time around, however, there appears to be a break with historic precedent. If the consensus long-term forecast of 2.5 percent average real growth is correct, it means the level of GDP, which serves as a proxy for

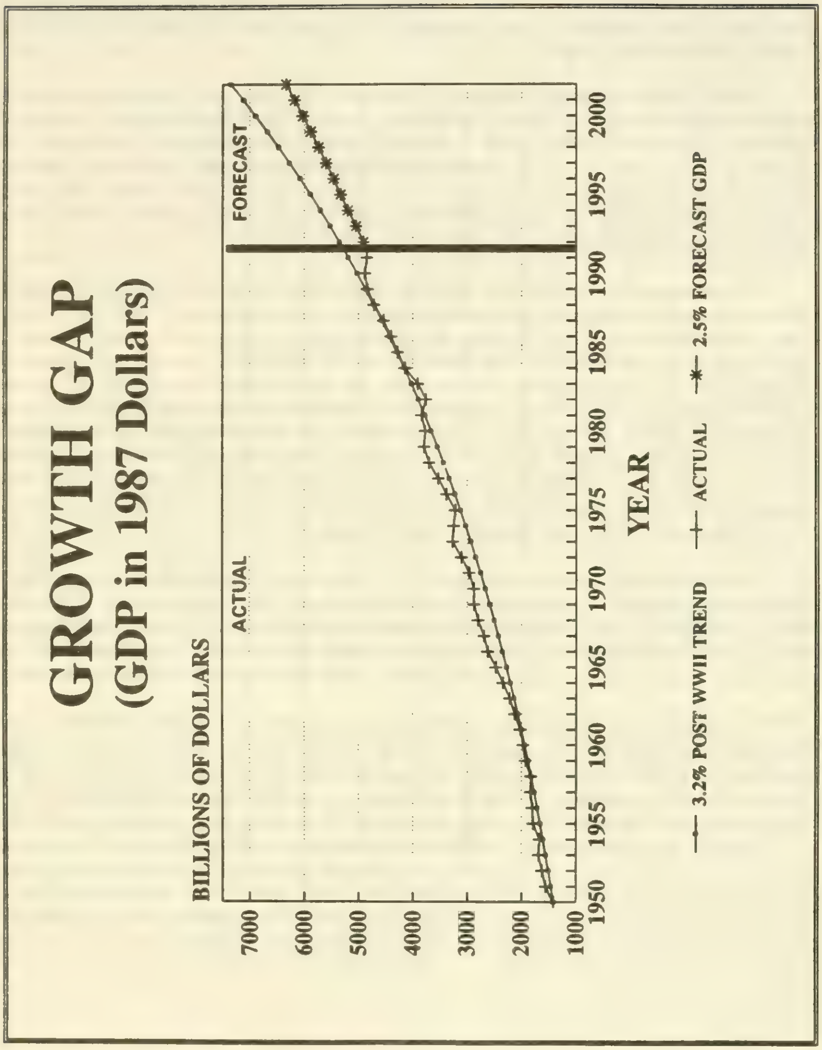
our standard of living, will continue to fall farther and farther below trend, creating a "growth gap" between actual economic performance and historical precedent. This situation is illustrated in the graph on the next page.

If the economy remains rutted on this lower-level growth path, it will have seriously negative implications for the future prosperity of America. A 2.5 percent growth rate will not suffice to satisfy the American public's expectations of growing prosperity. **Long-run real growth of 2.5 percent a year is insufficient to generate permanent job growth, and it is inadequate to increase the real income of the average worker. In other words, 2.5 percent a year real growth will not lead to any observable increase in the American standard of living within an acceptable time frame.**

The economy now stands $435 billion in 1987 dollars below its potential level given by the postwar trend. On a per-capital current dollar basis, this means about $2,400 less for every man, woman and child in 1992, or about $7,000 less after-tax income for a family of four. It also means 9 million fewer jobs than could have been expected. If the economy grows on average at just 2.5 percent for the next ten years, the gap will widen and the lost income and jobs will continuously rise. The seemingly small difference between 2.5 and 3.2 percent growth rates has large effects over ten years. Lost real GDP, and with it lost jobs, would amount to $385 billion in constant 1987 dollars. Thus, we have a benchmark against which to measure how much we should be willing to "spend" on, say, foregone tax revenue as measured by static estimates in order to achieve this higher growth rate. If the cost of assuring the higher growth rate is somewhat less than this amount, it would seem to be worth the price.

We believe that a growth potential of 2.5 percent is on the optimistic side. More likely, the economy's long-run capacity for growth under the current policy regime is more on the order of 2 percent because mistaken government policies so drastically impede the economy's capacity. Not only does this mean no significant improvement in the overall standard of living of most Americans, it leaves the economy very fragile and makes it vulnerable to further recession.

At present, with the recovery from recession complete, the economy stands well below the level it would be at if it had performed up to its postwar standard. The economic slowdown, which began in 1989, coupled with the 1990 recession and the anemic recovery have dug the nation into a deep economic rut. And, continued slow growth promises to make the task of digging back out very difficult. As the graph depicts, the economy appears to have downshifted into a lower gear, and each year it remains stuck in low gear it falls further beneath its expected output level. It will take growth in excess of 4 percent a year for a number of years to get back up to trend. This is not an unreasonable economic policy goal. Thus, the near-term goal of economic policy-making should be to double the expected rate of growth, from 2 percent to 4 percent by a enacting a properly constructed economic growth package.


GROWTH GAP
(GDP in 1987 Dollars)
BILLIONS OF DOLLARS
7000
6000
5000
4000
3000
2000
1000
ACTUAL
FORECAST
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
YEAR
3.2% POST WWII TREND
ACTUAL
2.5% FORECAST GDP

POLICY IMPEDIMENTS THAT CREATED THE GROWTH GAP

Since the passage of the 1986 Tax Reform Act, incentives to invest, work and produce have diminished. The primary problem has been a reduction in the return to investment or, in other words, a rise in the cost of capital. Some of the biggest culprits are less equitable depreciation allowances, increased capital gains taxes and the alternative minimum tax. As a result, despite the tax rate reductions during the Reagan years, marginal tax rates on capital are higher today than they were in 1983.

The 1986 Act lengthened depreciation lives for most assets, especially structures. It is no coincidence that since 1987, commercial property values have diminished in major economic areas of the United States. This has been a primary contributor to bank and thrift failures, bankruptcies, a small business credit crunch and a depression in the construction industry.

The Result: Real non-residential fixed investment has declined by 3.7 percent since 1988.

The cost of labor also has increased. Rising Social Security and Medicare payroll taxes have more than wiped out the income tax rate cuts for the middle class and raised the price of labor to employers. Increases in the minimum wage since 1990 have increased the cost of unskilled labor by 27 percent.

The Result: Private employment has increased only 475,000 since December, 1988.

Another factor seriously affecting the economy is the compliance cost of new regulations. These mandated costs on the private economy, although difficult to measure, will more than likely exceed the amount of scheduled new taxes in 1993. Estimates of additional compliance cost from the Clean Air Act, The Americans with Disabilities Act, new banking law and other major legislation range from $40 billion to $70 billion in 1993 alone. Mandated purchases of equipment to help the environment may amount to almost $20 billion. One wild card is what will happen when the regulatory moratorium is lifted on January 20, 1993. A whole slew of new regulations held back by the moratorium of 1992 could hit the economy in the last half of 1993.

The Result: A 1992 Joint Economic Committee report puts current regulatory costs at $461 billion annually and rising, constituting a major impediment to sustainable economic recovery.

A small business credit crunch has cut off the life-blood of small businesses. A series of laws in recent years culminating in the federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) have put a wet blanket over the business lending market. FDICIA and other laws have added new banking regulations designed to remove any risk in lending resulting in micro-management of banking by Washington. Compliance costs with all regulations imposed by the federal government now reach almost $18 billion per year -- equivalent to total bank earnings in 1991.

The result: Banks now hold as assets more in government securities than in private business loans.

The Federal Reserve also has contributed by allowing the slowest growth in the money aggregates in three decades. Beginning in 1988, the Fed set out intentionally to slow economic growth by squeezing money supply growth. This misguided policy brought the economy to the brink of recession. As usually is the case with Fed policy, it was taken to extremes and continued too long. Even after the recession began, the Fed continued its policy of extremely slow money growth in its quest to lower inflation below 4 percent. Between 1988 and 1992, the effect of Fed policy was to decelerate M2 growth at about one full percentage point a year leading to a cumulative shortfall in M2 growth of nearly 6 percent below the Fed's own target. Finally, between April, 1992 and August, 1992, the M2 money supply actually declined for five straight months.

By 1990, these and other policy mistakes had accumulated to such a point that the long-run growth capacity of the economy was depressed by approximately one full percentage point a year and the growth gap began to open. The recession was merely the culmination of that buildup of policy errors. The slow-motion recovery has been the result of a weakened economy struggling to overcome these policy handicaps.

Taken together, these policy mistakes have inhibited private markets and retarded investment. In particular, by lowering the rate of return on investment and raising the cost of capital, they have put a damper on entrepreneurial risk-taking.

The growth gap is for the most part government-induced. There is nothing inherent in the economy that consigns us to such low levels of economic performance. There is no earthly reason Americans should be asked to lower their expectations to accommodate this sluggish performance. With the right policy mix, economic growth could average as high as 4 percent over the next six years or so without igniting a new bout of rising inflation, and the growth gap could be closed.

ECONOMIC GROWTH VERSUS DEFICIT REDUCTION: AN ORGANIZING PRINCIPLE

Unfortunately, the recent uptick in the economy has allowed the debate over the future course of economic policy to be misstated as a series of fallacious either/or propositions. Let me reiterate: The relevant choice is not between doing nothing and enacting a short-run fiscal stimulus package. Neither of these options is the correct one. What we need are permanent reforms to address the policy impediments to growth: on the tax side, reduce the cost of capital and labor; on the regulatory front, lower compliance costs and alleviate the small-business credit crunch; and on the spending side, reprioritize outlays away from current consumption by making permanent changes to entitlement programs to reduce federal spending growth. In the longer-term, the budget deficit will be reduced only by getting economic growth up and spending growth down.

The second false choice frequently presented to policymakers is a supposed conflict, and therefore a forced choice, between economic growth and deficit reduction. The fact is, there is no conflict between the two, and if policy is made assuming there is, we will obtain neither. One danger of the current uptick in the economy is that it will allow the deficit hawks within the new administration to divert the new President from pursuing his stated objective of reviving economic growth just as they did in the previous administration.

President-elect Clinton must decide which of two competing organizing principles he will permit to guide the formation of his administration's economic policy: Is the federal budget deficit the **cause** or a **symptom** of subpar economic performance? Once in the Oval Office, he must choose one organizing principle over the other.

President George Bush chose to organize his administration's economic policy around deficit reduction. This was the wrong choice, it led to gridlock, and it cost him his job. The president-elect has pledged to end gridlock in Washington. To make good on this promise, he must understand that the source of gridlock was not divided government. To the contrary, policy gridlock in Washington over the past four years arose, ironically, out of a profoundly misguided bipartisan consensus that placed federal deficit reduction at the center of the policy universe. In a recent *Washington Post* op-ed, liberal economist Robert Kuttner points out the paradox of deficit reduction: "You don't get deficit reduction by targeting deficit reduction." When you try to do that, you get gridlock and self-defeating policies, e.g., tax increases in a recession.

If Clinton chooses to organize economic policy around the premise that the deficit is a major cause of subnormal economic performance, he will attempt to achieve deficit reduction directly by targeting the deficit, and the deficit will become the touchstone of each and every economic policy decision. He will follow in George Bush's footsteps down the same treacherous path to gridlock and counterproductive policies, and he will fail just as surely.

If, on the other hand, the new president chooses to organize economic policy around the premise that the deficit is a symptom of substandard economic performance, he will not become obsessed with the deficit, economic growth will become the touchstone of each economic decision, and the deficit will be reduced as if by a hidden hand. If Clinton chooses this organizing principle, he will follow the path charted by John Kennedy and successfully traversed again 20 years later by Ronald Reagan.

Choosing the Kennedy/Reagan economic growth principle over the Bush/Darman austerity principle is necessary for economic success and deficit reduction, but it is not sufficient. *New York Times* correspondent David E. Rosenbaum reaches the heart of the matter:

> One popular misconception is that the Republican tax cuts caused the crippling federal budget deficit, now approaching $300 billion a year. **The fact is, the large deficit resulted because the government vastly increased what it spent each year while tax revenues changed little.** (emphasis added)

Rosenbaum almost gets it right. Actually, tax revenues grew by an average of 8.1 percent a year during the Reagan economic expansion. Unfortunately, even this pace wasn't fast enough to keep up with accelerating federal spending.

If economic policy is to succeed, therefore, Congress and the new president must look past the short-run deficit and choose the correct policies to raise long-run economic growth and, thus, revenues; and they must concentrate on reigning in out-of-control federal entitlement programs to produce long-run spending control. As with the case of the deficit, directly targeting entitlement spending per se, as opposed to attacking the underlying engine of that spending, will produce self-defeating policies and failure. Federal spending on health care, for example, is out of control because the incentives are wrong for all participants in the health care market -- patients, doctors, hospitals, insurance companies and governments. Directly attacking federal spending on health care by creating statutory caps and artificial global health care budgets with all of their attendant bureaucratic rationing schemes and price controls will only suppress the problems to see them manifest in other ways. When we tried it with gasoline, we got long lines at service stations and watered-down gas. The health care system can only be fixed by getting the fundamentals -- incentives and price signals -- correct for all parties, and government costs, like the deficit, will come into control as a consequence.

A GROWTH AGENDA FOR THE 1990s

On the economic front, two objectives take precedence: 1) making it more profitable to invest by changing federal policies that raise the cost of capital and labor, and 2) making it possible for businesses to borrow by relaxing federal regulations that have produced the small-business credit crunch.

Addressing the Small Business Credit Crunch

Just as is the case with the deficit and entitlement spending, attempting to eliminate the small-business credit crunch by frontal assault with political edict and bureaucratic controls will only worsen the situation. The regulatory overkill that has created the small-business credit crunch was a political reaction to a financial services system in which the incentives are perverse and price signals are distorted. Until these root causes of the credit crunch are corrected, by bringing market discipline to bear on deposit insurance, the banking system will continue to be over-regulated and unwilling to lend adequately to small business. Mr. Clinton seems to recognize that new banking regulation is stopping the economic recovery from accelerating by prolonging the small business credit crunch. We urge Congress and the new administration to work together to enact changes to recently adopted laws and regulations that will allow bankers to take prudent risks once again. We also urge lawmakers to give serious consideration to fundamental deposit insurance reform such as that proposed in H.R. 6069, The Taxpayer Protection and Deposit Insurance Reform Act of 1992.

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Reducing the Cost of Capital

Practically speaking, real wages cannot be increased without increasing the nation's capital stock. And more capital requires more investment. While selected public investment can make some contribution to increasing the nation's capital stock, the only way economic growth is going to be increased sufficiently to raise real wages is to increase private investment. And, the only way to increase private investment is to reward it, not penalize it. This is not trickle-down economics -- this is an objective statement of the way free enterprise works.

Over the past 37 years, 75 percent of the variation in investment spending can be explained by changes in the rate of return on capital alone. And the rate of return on capital is highly sensitive to taxes on investment income since small reductions in taxes on investment income can greatly increase the rate of return for investors. Therefore, small variations in the tax rate on capital income lead to large changes in the nation's capital stock. Today, the marginal tax rate on capital is higher than it was before the tax cuts of the early 1980s and the rate of return on capital stands at a dismal 2.8 percent. So low a rate of return has been seen only twice before since 1954. (It has averaged about 3.3 percent.)

Capital Cost Recovery

A major distortion in the tax code that raises the cost of capital is the manner in which companies are forced to deduct the cost of plant and equipment from their income for tax purposes. The depreciation problem can be seen in depressed asset "recovery" rates, a term that should not be confused with economic recovery from recession. The asset recovery rate measures how much of an asset's replacement value (a calculation based on historical costs, inflation and alternative rate of return) can be recovered or written off under current tax laws. At present, shorter-term assets have a top recovery rate of 88 percent while longer-term assets can have as low as a 50 percent recovery rate. This is the main reason why longer-term investment has fallen in recent years -- the incentive to invest longer-term has been greatly diminished. With low recovery rates, the pre-tax rate of return to longer-term investments would have to be extremely high to justify the investment in question.

Expensing Capital Investment. As a matter of fairness, recovery ought to be 100 percent for all assets. This would reflect the fact that investment is a normal cost of doing business and should be fully deductible. Congress finds it difficult to adopt expensing of assets because it would greatly reduce federal revenues in the first few years even though it would raise economic growth and, hence, revenue growth over the longer-term. Under current law, Congress must find "offsets," such as other tax increases -- which partially or wholly defeat the purpose of any tax decrease in the first place. Congress could suspend current law to increase the near-term budget deficit for the sake of increasing economic growth, but is loathe to do so.

Although the law does not allow immediate expensing of investment expenditures, tax law could be amended to minimize the extent to which companies are prevented from recovering

less than 100 percent of the replacement cost of capital plant and equipment in a manner that would keep the deficit from rising in the near-term. At a minimum, Congress should allow the immediate expensing of federally mandated equipment purchases.

Investment Tax Credits. There has been much new discussion surrounding an investment tax credit (ITC) which works indirectly through tax laws to raise the capital asset recovery rate. However, to the extent the ITC is temporary, targeted and incremental, its impact on the economy will be limited to shorter-term stimulus leaving longer-term incentives to invest unchanged. An ITC would improve the outlook for 1993. A permanent, universal ITC would do double duty. It would raise real GDP growth in 1993 and in later years as well.

Neutral Cost Recovery. A permanent alternative to straightforward expensing is neutral cost recovery -- the present value equivalent of expensing -- which does not possess the distortion problems inherent in an ITC. Neutral cost recovery schemes generally keep existing asset depreciation lives intact, but adjust depreciation for inflation and the rate of return in alternative investments or, simply, the time value of money. Neutral Cost Recovery makes it possible for a firm to recover the full replacement cost rather than merely the original purchase price. It is possible to devise a neutral cost recovery system that actually generates increased revenue in the first few years while generating almost the same impact on economic growth as expensing or other neutral cost recovery schemes. The goal is the same as expensing -- bringing recovery rates to 100 percent to increase the incentive to invest and remove the bias against longer-term investment.

Indexing Capital Assets for Inflation

If neutral cost recovery is not politically acceptable, another change in federal tax policy that would drastically reduce the cost of capital and spur investment is to index for inflation future depreciation deductions and all unrealized capital gains. This policy has the capacity to yield a permanent reduction in the cost of capital while giving an immediate thrust to economic growth.

Indexing capital gains and depreciation deductions would be the economic equivalent of providing an 80 percent exclusion for capital gains and a permanent, universal 5 percent ITC. Virtually all economists agree that inflation should not be taxed. It is unjust and economically damaging.

Unlocking Capital by Indexing Capital Assets for Inflation. Consider a small investor who invested $1,000 in the Standard and Poor's 500 Index in 1970 and sold his stock for $4,975 in August, 1992. He would have realized a taxable capital gain of $3,975. At a 28 percent tax rate, the taxpayer would have owed $1,113 in tax. But inflation between 1970 and 1992 was 263 percent, so the taxpayer's real gain was only $1,344. He was taxed $1,113 on a real gain of $1,344, a stifling tax rate of 83 percent and far in excess of the statutory maximum of 28

percent. No wonder millions of people have "locked-in" hundreds of billions of dollars in assets and refuse to sell their stocks, farms, businesses and houses. We estimate that indexing capital gains for inflation would "unlock" an additional $800 billion in assets in 1993 alone.

Economic Impact of Inflation Indexing of Capital Assets. The reduction in the cost of capital produced by indexing capital gains and depreciation deductions would immediately make economically viable ventures that were uneconomical at the higher cost of capital, which means more new businesses and more jobs. In a study conducted for the U.S. Chamber of Commerce by Fiscal Associates Inc., former Treasury economists Gary and Aldonna Robbins estimate that indexing capital gains for inflation would increase U.S. capital formation by $1.6 trillion over 4 years and by $2.7 trillion over the next 8 years, create 542,000 jobs by 1996 and 938,000 by the year 2000, and add $473 billion to GDP by 1996 and $1.6 trillion by the end of the decade.

The good news gets even better. Fiscal Associates estimates that indexing depreciation deductions would increase U.S. capital formation by $3.0 trillion by 1996 and by $4.8 trillion at the end of the decade, create 931,000 jobs by 1996 and 1.7 million by the year 2000, and add $804 billion to GDP by 1996 and $2.8 trillion by the end of the decade.

These figures track closely what happened from 1983 through 1989 when the supply of capital was increased by $700 billion as a direct consequence of tax law changes made in 1981 and 1982. The reduction in the cost of capital brought about by indexing would be about four times that produced in the 1981 and 1982 tax law changes. Cheaper capital in the United States means more jobs stay at home. And more jobs mean an increased GDP.

The combined economic effect of indexing the cost basis of assets is dramatic. The cost of capital would come down by some 20 percent, which in turn would increase the nation's average annual economic growth rate during the next six years from the consensus forecast of 2.5 percent to 3.5 percent, a rate we enjoyed during the last six years of the 1980s. Until now, the nation's economy has not grown faster than 2 percent for two consecutive quarters since 1989.

Unfairness of Taxing Inflationary Gains. In addition, indexing capital assets diffuses the "fairness" issue that has so bedeviled the capital gains debate. Indexing produces broad-based tax relief for small investors, small businesses, workers, farmers and the elderly. It would virtually eliminate capital gains taxes for the average taxpayer-earning below $100,000.

Consider a typical middle-income taxpayer who bought a home for $125,000 in 1975 when he was 45. Since 1975, average home prices have increased 184 percent, most of which is due to inflation. So the house is worth $355,000 today. If the taxpayer, now 62, wants to sell his home to retire or reinvest his money to produce income, he would realize a capital gain of $230,000. If he uses his one-time exclusion of $125,000, his taxable capital gain is $105,000 and he owes $29,400 in capital gains taxes. If the purchase price of his house were indexed for inflation, as fairness would dictate, his basis would equal $330,000 after accounting for the 154

percent inflation since 1975, and he would owe the government nothing because his $25,000 capital gain would be less than the exclusion.

Few myths are as enduring as the myth that only the rich benefit from capital gains. In this example, the sale of our moderate-income individual's house (a non-recurring capital gain) made him look rich that one year. A more realistic picture of his economic situation is portrayed by using "ordinary income." In 1987, the latest year for which data are available, more than 70 percent of those reporting capital gains had ordinary income of less than $50,000.

Even those people who don't sell property gain by indexation. The stock market likely would appreciate by 20 percent as a direct consequence of indexing capital gains and depreciation deductions. The market appreciation would strengthen the pension systems of private companies and the pension funds of public employees. Indexing capital gains and depreciation would yield enormous dividends, for example, to the 16 million moderately paid state and local government employees who have almost $900 billion at stake in state and municipal pension funds.

Budgetary Impact of Indexing Capital Assets for Inflation. Loud objection to indexing may be expected from deficit hawks on both sides of the aisle. Here again, such concerns are misplaced. The study done for the Chamber by Fiscal Associates, Inc. estimates that even if indexing gives no boost to economic growth, the unlocking of assets would yield the federal government on net slightly more than $10 billion in additional revenues in the first two years and about $8.5 billion more to state and local governments. Mr. Chairman, I would like to submit this study, "Economic and Revenue Effects of Indexing Capital Gains and Depreciation 'basis' for Inflation," for the record.

Encouraging Investment in Research and Development

Industrial progress depends on the development of innovative products and methods. Research and experimentation (R&E) conducted by business is the primary means by which innovation is generated. Scientific developments are transformed into new products and processes that result in increased productivity, improved living standards and sustained economic growth.

The Chamber Federation believes that a successful national R&E policy is best served through reliance on private R&E expenditures. Private industry is now responsible for 72 percent of R&E and the R&E tax credit has been an important factor in stimulating this investment. Between 1981, when the credit was enacted, and 1985, the R&E tax credit stimulated $2.5 billion in new research spending.

A permanent R&E credit is necessary to ensure that the United States remains the largest investor in absolute size of R&E expenditures and to ensure that American business remains internationally competitive. It is estimated that private companies will increase investment more than $18 billion over the next five years, if the R&E credit is permanently extended.

American business needs stable and consistent tax policy. Research is inherently long-range, and industry needs stable policies to encourage commitment to long-term investments. The uncertainty surrounding the future existence of the credit no doubt leads to businesses reducing their commitment to long-term R&E projects, and in turn reduces the social benefits from R&E spending to all Americans. Permanent extension of the R&E credit would eliminate this uncertainty and provide the needed incentive needed for businesses to increase investment in R&E.

Alternative Minimum Tax

All of the investment incentives discussed above will be severely hampered if the alternative minimum tax (AMT) law is not reformed significantly or abolished. Under current law, even the best ITC, any accelerated depreciation system or neutral cost recovery system would be unavailable for use by most corporations because of AMT. The AMT is, in essence, a separate tax system requiring some companies to calculate depreciation in as many as 19 different ways. The purpose of the AMT was to close loopholes for companies that perennially experienced positive cash flow profits, but did not have tax liability. The recession, unfortunately, has put many corporations under AMT -- an unintended result that has greatly stifled investment spending since an AMT corporation can recover very little of its investment expenses. Paradoxically, tax law has put under the AMT many companies that have invested heavily and have created jobs during the recession, and as a result discourages future investment and growth.

THE ECONOMIC IMPACT OF FEDERAL INFRASTRUCTURE SPENDING: "MICRO" INVESTMENT VERSUS "MACRO" PUMP-PRIMING

There are three distinct economic arguments for public works spending projects. First, there may exist certain public spending programs, which would not be undertaken by the private sector, that have high enough rates of return that the overall social benefits from the public spending exceed the foregone private-sector activity that the public spending displaces. Second, there may exist certain public spending programs that enhance the overall efficiency of the economy so that the private sector is able to increase output beyond what it is capable of in the absence of the public spending. Third, public works projects might stimulate aggregate demand in the economy and thus lift the economy out of stagnation.

The empirical evidence supports increasing public spending on the first two grounds if the spending projects are carefully selected. The empirical evidence does not support public works spending projects to stimulate aggregate demand. We address these three cases in reverse order below.

Confronted by the stubborn nature of the recent recession, some economists have revisited the Keynesian notion that increased federal spending through public works projects

could stimulate aggregate demand and thus "prime the economic pump." This view portends a wealth-generating or "multiplier"" effect from public spending. Harvard economist Robert J. Barro recently described the theory this way:

> An increase in aggregate demand results from the government's higher expenditures and then supposedly leads to so much utilization of underemployed labor and capital that output expands by more than the rise in government spending -- that is, by a multiplier greater than one.[1]

Keynesians claim that the burden of the new taxes or the increased public debt that is required to finance such spending programs is more than offset by the positive-sum, stimulative effects of the new "investment."

Recent economic experience casts serious doubt on this proposition. If government spending per se is stimulative to the economy, why have we seen no demonstrable effect? Federal spending as a percentage of GDP rose steadily during the Bush Administration's tenure, from 22.1 percent in FY 1989 to an estimated 23.9 in FY 1993, according to the new OMB figures. In particular, federal infrastructure spending increased dramatically. Since 1989, total spending on infrastructure has increased 40 percent. Budget authority for highway spending is up by 31 percent since 1989; on airports, up 29 percent; on environmental infrastructure, up 32 percent; and on energy and science infrastructure, up 85 percent.

Moreover, for the entire decade of the 1980s, when the conventional wisdom would have us believe nation's infrastructure crumbled into disrepair, the rate of growth of public construction actually exceeded the rate of growth in nonresidential fixed investment. In other words, governments increased construction spending faster during the 1980s than did private businesses.

Seventy-one percent of all new jobs recorded by the Labor Department's establishment survey between December 1988 and December 1992 were state, local and federal government jobs. In effect, we have had one of the biggest public works programs in history during the past four years, yet real gross domestic product growth averaged a dismal 0.6 percent per year and job growth has been stagnant. It would seem that attempts at macroeconomic pump-priming, intended or not, at best produce zero sum gains for the economy, and at worst serve to hamper economic growth by forcing tax burdens higher.

While some economists continue to make the broad claim that any government spending is good for the economy, a much larger group of economists have emerged, including many top economic advisers to the incoming Clinton Administration, with a more sophisticated argument. This view claims that carefully targeted increases in public spending -- broadly described as "investment" -- can do what Keynesian demand stimulus has failed to do, increase real economic growth. Specifically, these theorists support targeted investments in work force training, capital

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[1] Robert J. Barro, "Keynes Is Still Dead," *Wall Street Journal*, October 29, 1992.

spending on infrastructure and more public investments in research and development, particularly in the high technology industries.

The more sophisticated public investment view is supported by a body of literature that seeks to demonstrate a positive return on public investment. The most cited in this genre is a 1989 article in the *Journal of Monetary Economics* by economist David Aschauer[2] that finds an empirical relationship between the decline in productivity growth in the 1970s and the fall in government spending on infrastructure. Thus private output per unit of capital (and labor) appears to be dependent on the stock of "public capital" (manifesting itself as roads, bridges and airports). More recently, Aschauer has concluded that "America's economy suffers a crippling deficit in spending on vitally needed public works. Declining U.S. public investment is a major cause of our economy's faltering productivity, profitability, and private sector capital formation."[3] Similar findings appear in studies by Alicia Munnell[4] and Jonathan B. Ratner.[5]

One problem with this public investment literature is that it wrongly leaps from findings of empirical regularity to conclusions of a functional economic relationship between the rate of public investment and the productivity of private labor and capital. More recent work on this question by economist John A. Tatom[6] finds other factors that contributed to the decline in American productivity during the 1970s that had nothing to do with the decline in public investment. Specifically, Tatom provides evidence that "the entire decline in productivity growth from late 1973 to 1981 resulted from the rise in energy prices and the associated reductions in the capital-labor ratio. Tests of the effects of public capital on private output have not controlled for these effects."[7] With such considerations in mind, Tatom achieves far different results:

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[2] David Alan Aschauer, "Is Public Expenditure Productive?" *Journal of Monetary Economics*, Vol. 23, No. 2, March, pp.177-200. See also, Is Government Spending Stimulative?," *Contemporary Policy Issues*, Vol. VIII, October 1990.

[3] David Alan Aschauer, "Infrastructure: America's Third Deficit," *Challenge*, March-April 1991.

[4] Alicia H. Munnell, "Why has Productivity Growth Declined? Productivity and Public Investment," *New England Economic Review*, January/February 1990.

[5] Jonathan B. Ratner, "Government Capital and the Productive Function for U.S. Output," *Economic Letters* 1983.

[6] John A. Tatom, "Public Capital and Private Sector Performance," *The Federal Reserve Bank of St. Louis Review*, Vol. 73, No. 3.

[7] Ibid, p. 10.

> An increasing number of people are advocating increased government capital spending to raise private sector output, productivity and private capital formation. The evidence presented here, based on the post World War II experience, suggests that a rise in public capital spending would have no statistically significant effect on these measures. Earlier claims of a positive and significant effect of public capital on private sector output have arisen from spurious estimates. In fact, most of these earlier estimates have ignored a trend or broken trends in productivity, as well as the statistically significant influence of energy price changes.... When all of these problems are addressed using a first-difference estimate of the production function, the public capital stock effect on private sector output is not statistically different from zero.[8]

There is, however, an important distinction between public works programs aimed at stimulating aggregate demand and productivity, and specific public investments in the maintenance and development of the nation's infrastructure. While the former wrongly seeks to expand the macroeconomy, the latter is focused on the microeconomic problem of operative efficiency and direct public benefits. For instance, a heavily-used interstate highway will move more traffic per hour than a poorly-maintained road that slows traffic and is accident-prone. It makes perfect economic sense to maintain that highway at full operative capacity on efficiency grounds-indeed it may even justify spending more public or private money to increase the highway's capacity and thus improve the local economy's efficiency. Motorists and businesses also derive immediate direct benefits from improved transportation facilities.

Some argue that a strict cost/benefit test is inappropriately applied to much public works spending. They argue that it is impossible to know what the net positive benefits of public investments are because of the unknowable, unmeasurable positive effects that ripple through the economy as a result of new infrastructure spending. The obvious question to be raised is: if the benefits are unmeasurable and unknowable after the fact, how are public officials to sort out good projects from bad ones before the fact? Pursuing this line of logic too far is likely to justify all manner of otherwise questionable public works projects on the grounds that some of them will be beneficial, although we cannot ever know which ones or by how much.

This question of knowledge provides an important, fundamental distinction between government investment and private investment. Government investment necessarily is wedded to the political process--a process that necessarily produces political outcomes that do not necessarily reflect any economic factors. Conversely, private investments are always made based on supply and demand, subject to profit and loss. These constantly changing economic conditions, though often inarticulate, are conveyed to market participants through relative prices. The process of knowledge conveyance in private markets has been developed in the economics literature most notably by Nobel Laureate F.A. Hayek.[9]

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[8] Ibid, p. 13. For the most recent research on this question, see Douglas Holtz-Eakin, "Public-Sector Capital and the Productivity Sector," National Bureau of Economic Research Working Paper, No. 4112, July, 1992.

[9] F.A. Hayek, "The Use of Knowledge in Society," *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

These insights of Hayek have profound policy implications. If Congress decides that more investment in R & D and increased work-force training is called for, it is far preferable to marshall the forces of the market in allocating this increased investment by using tax incentives than to make direct government expenditures.

Among those infrastructure activities that can be justified as improving the overall efficiency of the economy is investment in telecommunications infrastructure. Expansion of the telecommunications infrastructure can assist in the development of an advanced communications network which can improve the delivery of business services and enhance productivity on a national and local level, while meeting the education, training, and health care needs of local communities. America's competitive position in the 21st century will depend in large part on the nation's ability to develop and maintain an advanced telecommunications infrastructure capable of efficiently processing vast amounts of information and making such information available in productive ways to communities nationwide.

Federal, state and local governments and the private sector should work together to facilitate the development of an advanced national communications network which could dramatically improve business services and productivity as well as access by local communities to education, training and health care.

TAX INCREASES ARE UNNECESSARY AND ECONOMICALLY DESTRUCTIVE

There are a number of pressing problems, such as airport gridlock, that could be alleviated through a careful increase in infrastructure outlays. For many such problems, funds already have been levied and earmarked, but sit unreachable as paper trust funds in the federal budget. A possible exception to this general rule may be the Highway Trust Fund. Although there is currently an $11.37 billion surplus in the Fund, a September 1992 General Accounting Office report suggests that by FY 1999, the Highway Trust Fund will fall $5.9 billion short of authorizations. The trend change resulted from new spending authorizations included in the Intermodal Surface Transportation Efficiency Act of 1991. However, it should be noted that even under the GAO's worst-case scenario, the Highway Trust Fund is still 7 years away from insolvency. Should economic growth and gas tax revenues pick up in the interim, the problem disappears.

If Congress decides on efficiency grounds that more spending on infrastructure is required immediately than is available in the trust funds, it should reallocate current spending away from consumption and into new, well thought-out projects, as suggested by the incoming Clinton Administration. This shift of funds would, in effect, reclaim the 2 1/2 cent of the 5 cent gasoline tax increase diverted to general "deficit reduction" as part of the 1990 Omnibus Budget Reconciliation Act and reallocate those monies for their original purpose. Raising taxes, even earmarked taxes, to increase infrastructure spending would be a mistake.

An even bigger mistake would be to increase the gasoline tax to fuel non-infrastructure spending. One hears disturbing rumblings about raising the gasoline tax to pay for so-called long-term public investments in all manner of non-transportation related activities. This would be an enormous mistake and compound the mistakes of the past decade.

Since the 1981 tax cuts, which spurred investment and economic growth, taxes at all levels of government have increased many times. Except for the tax act in 1982 (then the largest in history), which reversed some of the 1981 cuts, and the 1990 Budget Act, which raised federal taxes by $160 billion over five years, the other separate tax increases were each of a small amount. However, over time, the combined effect of the numerous small tax increases is quite large. In 1993, a combination of various federal tax increases will amount to at least $13 billion. It has been estimated that state and local governments facing budget crises will increase 1993 taxes by almost $17 billion. The combined federal, state and local tax increase, roughly $30 billion, is not an insignificant amount. Since Congress plans to offset any tax cuts it enacts in 1993 with additional tax increases, the economy could be facing upwards of $50 billion of tax increases in 1993.

Congress usually spends more than it manages to raise through tax hikes. Estimates vary, but researchers have shown that spending tends to rise by $1.57 or more every time Congress raises taxes by $1. Witness the past two years. Although the 1990 Omnibus Budget Reform Act promised over $300 billion in spending cuts between 1991 and 1995, the spending baseline has actually risen. This occurred even though the tax increases have evaporated. If, on the other hand, the new administration's numbers show tax cuts to spur economic growth and, at the same time, Congress cuts future spending, then history suggests there is a good chance that this policy will succeed in raising the growth in the economy and lowering the federal deficit.

When setting spending priorities, the problem is one of separating real investment spending needs from old-fashioned Congressional pork. Economist Robert J. Barro, for instance, finds that:

> investment in public infrastructure as a broad category offers reasonable, but not extraordinary, rates of return. This finding is consistent with cost-benefit analyses that have been applied to individual projects. The broad conclusion from these studies is that the highest returns derive from maintenance of existing capital (with rates of return up to 40% per year) and from highway projects in congested cities (with rates of return of 10% to 20% annually). In other words, fixing potholes is a good idea, but bullet trains and advanced communications networks are less obvious.[10]

Therefore, the way to achieve economic efficiency gains is to take money currently being spent on low-return public projects and on public consumption and redirect it toward public infrastructure projects with a higher rate of return that is more comparable to what is achievable in the private sector. There are no efficiency gains to be had, however, by diverting more resources out of the private sector into public infrastructure spending.

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[10] "Keynes Is Still Dead."

Because there is little or no stimulus to aggregate economic growth accruing from enhanced investment in infrastructure, Congress must be careful to fund new investment spending on infrastructure with cuts from planned spending increases on consumption. Otherwise, the private sector will be burdened with financing a higher federal deficit over the longer-term. It is probably not possible to put a lasting lid on federal consumption expenditures such as most entitlements, transfer programs and subsidies at this time. Congress can set temporary caps, but at the same time it must set up various commissions on spending, divided by spending category, to recommend a permanent program of spending restraint later in 1993.

Projections by the CBO reveal that to balance the budget in 2002, the average annual rate of spending growth must be limited to at most 3.0 percent. This is almost as large as the projected rate of inflation over that time. It is slightly higher than the projected rate of economic growth, a 2.5 percent average annual growth rate.

Spending growth will almost surely be double the 3.0 percent rate in 1993. CBO projects that long-term spending will grow by at least a 5.5 percent rate through 2002. This is less than the rate of growth in spending from 1980 through 1992. However, the economy grew faster with greater inflation during that time than is projected for the next ten years. As a result, CBO still projects a deficit of over $400 billion by 2002. Clearly, further spending restraint is necessary to ease the burden on the private economy to finance government growth. The key step to reducing future deficits is to enact tough spending prioritization plans to take spending increases away from consumption and put them toward investment. Enhanced private investment incentives can then perform a second, important task: The higher economic growth that incentives help generate will raise federal revenue growth. This will allow the federal government to close the deficit sooner or to keep spending growth above 3.0 percent for ten years and still balance the budget by 2002.

IT'S TIME FOR A CHANGE IN POLICIES THAT IMPEDE ECONOMIC GROWTH

The policy process has become fixated on the budget deficit and that fixation is reinforced by an institutionalized bias that pretends that tax cuts on capital have no significant positive effect on investment and that capital formation is unaffected by tax policy. This fixation has produced an inordinate fear of change -- a bipartisan, policy paralysis that is symptomatic of a collective neurosis unwarranted by the facts.

If the economic benefits, and hence the increased revenues, from policy changes such as indexing capital assets don't materialize, it may be necessary to raise taxes again a few years from now. We won't know until we get there. On thing we know for sure: It would be foolish to forego the certain immediate benefits of policies such as indexing because of anxiety that the resulting economic improvements may not be permanent -- especially when any revenue shortfall is so directly amenable to immediate congressional remedy if one develops. It is a calculated risk we should be willing to take.

It simply makes no sense for Americans to endure unfair and economically damaging tax policy because of a trepidation that Congress might prove incapable of taking responsible action in the future. After all, one does not refrain from motoring west from the east coast simply because he would fall into the Pacific Ocean if he failed to alter his heading at some later point. Yet, Congress continues to refuse to take a chance on specific tax policy changes to create a more capital-friendly environment.

It is time for a change. It is time to use a little common sense. All we are saying is, give growth a chance.

UNITED STATES ECONOMIC OUTLOOK 1993
Prepared by the U.S. Chamber of Commerce
First Quarter 1993

(Percent change from previous periods at seasonally adjusted annual rates unless otherwise indicated by shading.)

	QUARTERS							YEARS				
	Actual		Forecast					Actual			Forecast	
								Annual Average				
	92/2	92/3	92/4	93/1	93/2	93/3	93/4	'83-'88	1990	1991	1992	1993
GROSS DOMESTIC PRODUCT												
Nominal GDP	4.3	5.3	5.2	5.6	5.0	4.9	4.8	7.5	5.2	2.8	4.7	5.2
Real GDP	1.5	3.4	3.2	2.7	1.6	1.8	1.9	4.0	0.8	-1.2	2.0	2.5
Consumption	-0.1	3.7	3.0	2.5	-0.9	2.6	1.5	4.1	1.2	-0.6	2.1	1.9
Residential Investment	12.6	0.2	4.8	6.6	4.5	4.8	5.6	10.8	-9.1	-12.6	11.9	5.2
Nonresidential Investment	16.1	3.1	7.7	5.9	14.9	4.9	4.0	4.8	-0.4	-7.0	2.9	8.1
Equipment	24.1	9.5	11.4	8.0	23.4	6.8	5.2	8.5	-1.0	-4.6	7.3	12.8
Structure	-0.8	-11.3	-2.0	0.3	-8.4	-0.8	0.4	-2.6	0.9	-12.0	-6.8	-3.5
Real Net Exports (87$B)	-43.9	-52.7	-51.6	-54.3	-54.8	-51.8	-55.2	-88.7	-51.8	-21.8	-42.4	-54.0
Exports	-1.4	9.2	6.8	4.3	4.6	5.4	3.6	6.7	8.1	5.8	6.2	5.2
Imports	14.7	14.8	5.5	5.7	4.5	3.1	5.4	10.5	3.0	-0.1	9.6	6.8
Government Purchases	-1.2	3.8	1.8	1.5	1.5	2.4	-1.7	3.2	[illegible]	1.2	-0.1	1.5
Change in Business Inventories (87$B)	7.8	15.0	11.9	14.0	16.3	-0.8	9.5	21.6	6.2	-9.3	5.5	9.8
Final Sales of Domestic Product	-0.1	2.8	3.5	2.5	1.4	3.2	1.1	3.8	1.3	-0.8	1.7	2.4
EMPLOYMENT, PRODUCTION, PROFITS, INTEREST RATES, INCOME AND PRICES												
Civilian Unemployment Rate (%)	7.5	7.6	7.3	7.3	7.4	7.4	7.5	7.2	5.5	[illegible]	7.4	7.4
Industrial Production	5.2	2.1	2.8	3.0	1.1	2.9	1.0	4.9	1.0	-1.9	1.1	2.5
New Car Sales (mill.)	8.4	8.2	8.6	8.9	9.0	[illegible]	8.9	10.5	9.5	8.4	8.3	8.9
Domestic Car Sales (mill.)	6.2	6.0	6.4	6.7	6.8	6.6	6.7	7.6	6.9	6.1	6.1	6.7
New Housing Starts (mill.)	1.14	1.20	1.25	1.28	1.31	1.35	1.39	1.68	1.20	1.01	1.21	1.33
Compensation	2.4	3.5	3.8	4.2	4.4	3.9	3.8	4.3	5.4	4.7	3.6	4.0
Productivity	1.7	3.0	2.9	2.7	1.5	1.4	1.1	1.9	0.0	0.1	2.7	2.2
Unit Labor Costs	0.8	0.6	0.9	1.5	2.9	2.5	2.7	2.3	5.4	4.5	0.9	1.8
Consumer Price Index	3.5	2.6	3.2	3.2	3.9	3.8	3.4	3.5	5.4	4.3	3.1	3.4
Implicit GDP Deflator	2.7	2.0	2.0	2.9	3.6	3.1	2.9	3.3	4.3	4.0	2.6	2.8
Prime Interest Rate (%)	6.5	6.0	6.0	5.0	6.0	6.0	6.0	9.8	10.1	8.5	6.2	6.0
3-month Treasury Bill Rate (%)	3.7	3.2	3.1	3.3	3.3	3.2	3.1	7.8	7.5	5.4	3.5	3.2
Corporate Bond Rate (%)	8.3	8.1	8.0	8.1	8.0	8.0	8.0	10.7	9.3	8.8	8.2	8.0
Real Personal Disposable Income	1.2	0.5	1.6	2.6	2.0	1.5	1.0	3.6	0.9	-0.2	2.0	1.7
Changes in Profits from Current Production ($B)[1]	4.4	-14.3	15.6	-3.2	1.0	5.0	2.1	29.8	-1.1	-15.4	37.7	6.2

[1] Corporate profits with inventory valuation and capital consumption allowances.

FORECAST ASSUMPTIONS

This forecast table contains final estimates of the National Income and Product Accounts for the third quarter of 1992. The nation's money supply M(2) is assumed to grow by 3.5 percent in 1993. The trade weighted exchange value of the dollar is projected to rise by 1.0 percent in 1993.

SOURCE: U.S. Chamber of Commerce, Forecast Section.

Economic and Revenue Effects of Indexing Capital Gains and Depreciation "Basis" for Inflation

A memorandum prepared by:

Fiscal Associates, Inc.

August 24, 1992

U.S. Chamber of Commerce

Washington, D.C. 20062

August 24, 1992

The U.S. Chamber of Commerce is pleased to release "The Economic and Revenue Effects of Indexing Capital Gains and Depreciation 'Basis' for Inflation." In this important new study, former Treasury Economists Gary and Aldonna Robbins find that both the indexation of capital gains and depreciation "basis" would prove a powerful boost to the struggling U.S. economy. Indexing capital gains alone would have an immediate positive effect on growth and would create some 938,000 new jobs and $1.6 trillion in additional GDP by the year 2000.

The authors conclude that indexation of the basis of both capital gains and depreciation, when taken together, would "lead to an additional 1 percentage point increase in the growth rate over the next six years. The 2.4 percent average long-run growth rate currently predicted by most forecasters could become the 3.4 percent enjoyed during the last six years of the Reagan Administration."

The study estimates that during the first four years, using a static revenue estimating procedure (i.e., assuming no increase in economic growth due to indexing), the unlocking effect of indexing capital gains will generate $20 billion in new capital gains revenues for the federal government alone, which will offset an estimated $20 billion static revenue loss in federal revenues due to indexing depreciation. When the dynamic effects of increasing economic growth are taken into account (i.e., when increased economic growth due to indexing is factored in), the study estimates that the combined indexation of capital gains and depreciation will actually yield a five-year revenue increase to the federal government equaling $176.5 billion. State and local governments can expect to increase their total revenues by approximately $134.6 billion during this same five year time period.

The case for indexation is not ideological. Even those economists who favor taxing ordinary income and capital gains at identical rates, for example, agree that the part of capital gain attributable to inflation should not be taxed. The taxation of inflationary gains is unjust and economically damaging. Thwarted by continued congressional inaction, the president is said to be looking intently for actions he can take on his own to help get the economic recovery out of low gear. No other single action he could take alone would be more helpful to the economy than to use his administrative authority to index capital gains and depreciation for inflation.

Lawrence A. Hunter
Vice President and Chief Economist

ECONOMIC AND REVENUE EFFECTS OF INDEXING CAPITAL GAINS AND DEPRECIATION "BASIS" FOR INFLATION

Prepared by:
Fiscal Associates, Inc.

For:
The U.S. Chamber of Commerce

August 24, 1992

Capital gains income and tax depreciation depend on the definition of "basis." Generally, basis is the "cost" of obtaining an asset — either financial or physical. In measuring income for tax purposes, taxpayers are allowed to recover their cost (basis) without tax. Tax law, however, does not index the basis for inflation that has occurred between the time of acquisition and sale of the asset.

The capital gains tax applies to the value of the asset less its basis. Much of the capital gains from an asset held for a number of years results from the increase in price due solely to inflation.

Depreciation deductions also depend on the basis concept. The purpose of depreciation is to exclude the principal used in purchasing an asset from a third layer of taxation. Here again, however, inflation taints the adjustment for original cost. Replacing an asset generally costs more than the original cost.[1]

Adjusting an asset's basis for inflation would more accurately reflect the true economic effects involved. In the case of capital gains only "real" economic gains would be taxed. In the case of depreciation the adjustment would acknowledge rising costs of replacement due to inflation.

Indexing the Basis for Capital Gains

Tables 1 through 3 show the economic and revenue effects of allowing the capital gains basis to be indexed from the last time it was determined.[2] We have assumed that the change would be effective in the last third of 1992. All other tax provisions, including depreciation, are assumed to remain the same as current law.

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[1] Lengthening cost recovery also distorts investment decisions because it does not adjust for the time value of money.

[2] In other words, the last time the asset was evaluated for tax purposes such as original purchase or step up at the time of inheritance.

Indexing will dramatically unlock capital gains that have been building over the last several years. The forty percent increase in capital gains tax rates contained in the Tax Reform Act of 1986 has led to a significant drop in capital gains realizations. Realizations in 1990 are below those in 1984 despite a large increase in stock market values and normal economic growth. In short, as we and others predicted, tax revenues from capital gains are no higher today than they were before the rate increase.

We estimate that realizations from the unlocking would increase capital gains tax revenues by about $20 billion over the first four years. In the long-run, we estimate that the change would be, on average, equivalent to an 80 percent exclusion of nominal (unadjusted) capital gains.

Indexing capital gains also would lower the cost of capital and increase economic growth. We estimate that indexing capital gains for inflation would:

- Create 542,000 jobs by 1996 and 938,000 by the year 2000.
- Increase U.S. capital formation by $1.6 trillion by 1996 and by $2.7 trillion at the end of the decade.
- Add $473 billion to GDP by 1996 and $1.6 trillion by the end of the decade.

By the year 2000, we estimate that the ***static*** revenue loss would be $16.3 billion a year. The additional $54.8 billion in federal revenue resulting from higher economic growth, however, would produce a net revenue gain of $38.6 billion a year. Higher economic growth also would benefit state and local governments, increasing their annual revenues by $38.1 billion.

Indexing the Basis for Depreciation

Tables 4 through 6 show the economic and revenue effects of applying the inflation adjustment to the basis for depreciation deductions. Following the capitals gains convention, we have assumed that the new adjustment would apply to the ***last adjusted basis***. This assumption limits the inflation adjustment to the remaining basis of the existing U.S. capital stock and to new investment. The limitation prevents an immediate $40 billion a year revenue loss that would simply represent a windfall gain to owners of existing assets.

Indexing depreciation deductions would lower the cost of capital and increase economic growth. We estimate that this indexing would:

- Create 931,000 jobs by 1996 and 1.7 million by the year 2000.
- Increase U.S. capital formation by almost $3 trillion by 1996 and by $4.8 trillion at the end of the decade.

- Add $804 billion to GDP by 1996 and $2.8 trillion by the end of the decade.

The static revenue loss would amount to about $20 billion over the first four years — matching the static revenue increase from unlocking capital gains. By the year 2000, the provision would be losing almost $45 billion annually. The prospective (or backloaded) nature of the revenue loss allows the government to provide substantial investment incentives with a minimal initial static revenue loss. It is as if the government provides a break to businesses if they agree to defer taking it until later.

Higher economic growth, however, would produce a net annual revenue gain of $55.1 billion by the year 2000. Higher economic also would benefit state and local governments, increasing their revenues by $68.6 billion a year.

Indexing the Basis for Both Capital Gains and Depreciation

Combining indexing for capital gains and depreciation is a highly effective way to provide investment incentives. The initial static revenue losses are zero over the first four years. Incentive effects, however, are at their maximum immediately. The static revenue losses that critics will claim are either far into the future or wishful thinking. The current low levels of capital gains realizations will continue as long as tax rates are high. The choice is between more revenue now at a lower tax rate with the fall off later on or a continuation of the current anemic dribble in hopes of getting a little more in the future.

When economic growth is considered, indexing capital gains and depreciation would yield enormous dividends to government and to workers (Tables 7 through 9). High taxes on capital drive businesses overseas, costing workers their jobs and government its tax base. The basis adjustment will lower the capital cost of doing business in the U.S. by 20 percent and make the mix of labor and capital more efficient. These two effects will lead to an additional one percentage point increase in the growth rate over the next six years. The 2.4 percent average long-run growth rate currently predicted by most forecasters could become the 3.4 percent enjoyed during the last six years of the Reagan administration.

Table 1

EFFECT OF BASIS ADJUSTMENT CHANGE FOR CAPITAL GAINS

(billions of nominal dollars, millions of jobs)

Calendar Year	Change in GDP	Change in Jobs	Change in Capital
1992	11.7	0.022	116.7
1993	44.9	0.095	435.0
1994	91.4	0.224	857.3
1995	139.3	0.377	1,270.6
1996	185.7	0.542	1,649.7
1997	226.2	0.689	1,958.8
1998	260.4	0.805	2,204.0
1999	292.4	0.880	2,434.3
2000	323.4	0.938	2,653.4

Table 2

EFFECT OF BASIS ADJUSTMENT CHANGE FOR CAPITAL GAINS

(percentage deviation from OMB baseline)

Calendar Year	Percent Change in GDP	Percent Change in Jobs	Percent Change in Capital	Change in Growth Rate
1992	0.22%	0.02%	0.59%	0.11%
1993	0.80%	0.09%	2.09%	0.26%
1994	1.51%	0.20%	3.92%	0.38%
1995	2.15%	0.34%	5.53%	0.43%
1996	2.69%	0.48%	6.82%	0.44%
1997	3.07%	0.60%	7.69%	0.43%
1998	3.31%	0.69%	8.22%	0.41%
1999	3.48%	0.74%	8.62%	0.38%
2000	3.61%	0.78%	8.91%	0.36%

Fiscal Associates, Inc. August 24, 1992

Table 3
EFFECT OF BASIS ADJUSTMENT CHANGE FOR CAPITAL GAINS
(billions of nominal dollars)

Calendar Year	Static Federal Revenue Change	Federal Change Due to Growth	Dynamic Federal Revenue Change	State & Local Revenue Change	Net to All Governments
1992	6.4	3.2	9.6	1.9	11.5
1993	8.9	9.7	18.6	6.2	24.8
1994	4.7	16.6	21.3	11.3	32.6
1995	0.0	24.2	24.2	16.7	40.9
1996	-2.7	31.8	29.1	22.1	51.2
1997	-5.6	38.6	33.0	26.9	59.8
1998	-8.9	44.6	35.7	30.9	66.6
1999	-12.4	49.8	37.4	34.6	72.0
2000	-16.3	54.8	38.5	38.1	76.7

Table 4
EFFECT OF BASIS ADJUSTMENT CHANGE FOR DEPRECIATION
(billions of nominal dollars, millions of jobs)

Calendar Year	Change in GDP	Change in Jobs	Change in Capital
1992	13.0	0.024	129.5
1993	67.9	0.137	662.6
1994	152.6	0.357	1,449.6
1995	242.6	0.635	2,247.9
1996	327.9	0.931	2,963.8
1997	405.4	1.199	3,583.0
1998	466.6	1.409	4,031.8
1999	523.8	1.558	4,446.4
2000	578.5	1.668	4,835.9

Table 5
EFFECT OF BASIS ADJUSTMENT CHANGE FOR DEPRECIATION
(percentage deviation from OMB baseline)

Calendar Year	Percent Change in GDP	Percent Change in Jobs	Percent Change in Capital	Change in Growth Rate
1992	0.25%	0.02%	0.66%	0.12%
1993	1.21%	0.13%	3.19%	0.40%
1994	2.53%	0.32%	6.63%	0.63%
1995	3.75%	0.57%	9.77%	0.74%
1996	4.75%	0.82%	12.25%	0.78%
1997	5.50%	1.04%	14.07%	0.77%
1998	5.93%	1.20%	15.04%	0.72%
1999	6.24%	1.31%	15.74%	0.67%
2000	6.45%	1.39%	16.25%	0.63%

Table 6
EFFECT OF BASIS ADJUSTMENT CHANGE FOR DEPRECIATION
(billions of nominal dollars)

Calendar Year	Static Federal Revenue Change	Federal Change Due to Growth	Dynamic Federal Revenue Change	State & Local Revenue Change	Net to All Governments
1992	-0.9	3.4	2.4	2.0	4.5
1993	-3.9	14.9	11.0	9.5	20.4
1994	-7.4	27.6	20.1	18.8	39.0
1995	-11.5	42.0	30.4	29.1	59.6
1996	-16.3	56.0	39.8	39.1	78.8
1997	-21.8	68.9	47.2	48.1	95.3
1998	-28.1	79.8	51.7	55.5	107.2
1999	-35.4	89.5	54.1	62.2	116.3
2000	-43.8	98.9	55.1	68.6	123.7

Fiscal Associates, Inc. August 24, 1992

Table 7
COMBINED EFFECT OF CAPITAL GAINS AND DEPRECIATION
(billions of nominal dollars, millions of jobs)

Calendar Year	Change in GDP	Change in Jobs	Change in Capital
1992	23.4	0.044	234.4
1993	99.8	0.159	993.4
1994	213.7	0.474	2,054.9
1995	332.9	0.861	3,119.2
1996	447.2	1.267	4,091.3
1997	549.2	1.631	4,912.5
1998	633.0	1.919	5,539.2
1999	712.2	2.125	6,127.0
2000	788.0	2.275	6,681.5

Table 8
COMBINED EFFECT OF CAPITAL GAINS AND DEPRECIATION
(percentage deviation from OMB baseline)

Calendar Year	Percent Change in GDP	Percent Change in Jobs	Percent Change in Capital	Change in Growth Rate
1992	0.45%	0.04%	1.19%	0.22%
1993	1.77%	0.15%	4.78%	0.59%
1994	3.54%	0.43%	9.40%	0.87%
1995	5.15%	0.77%	13.56%	1.01%
1996	6.48%	1.11%	16.91%	1.05%
1997	7.45%	1.41%	19.29%	1.03%
1998	8.05%	1.64%	20.66%	0.97%
1999	8.48%	1.79%	21.69%	0.91%
2000	8.79%	1.89%	22.45%	0.85%

Table 9
COMBINED EFFECT OF CAPITAL GAINS AND DEPRECIATION
(billions of nominal dollars)

Calendar Year	Static Federal Revenue Change	Federal Change Due to Growth	Dynamic Federal Revenue Change	State & Local Revenue Change	Net to All Governments
1992	5.4	6.5	11.9	3.8	15.7
1993	5.0	21.9	26.9	13.9	40.9
1994	-2.7	38.5	35.8	26.4	62.2
1995	-8.9	54.3	45.4	38.7	84.1
1996	-16.3	72.8	56.5	51.8	108.3
1997	-24.6	89.4	64.8	63.6	128.4
1998	-34.1	103.6	69.5	73.4	143.0
1999	-44.7	116.3	71.6	82.4	154.1
2000	-56.8	128.5	71.6	91.0	162.7

Notes for Tables 1 through 9

[1] The baseline is the assumed OMB July 1992 mid-year review forecast.
[2] Employment and capital stock estimates are cumulative.
[3] All dollar figures are in nominal dollars.
[4] Simulations assume that the Fed maintains inflation at the mid-year review levels.

More than half of eligible workers of all incomes participate in a 401(k) plan, about twice the participation rate for IRAs. Even in plans without employer matching, the participation rate is significantly higher than in IRAs. This may suggest that payroll deductions and encouragement from employers have an important effect on individual decisions about saving.

Poterba, Venti, and Wise calculate that, among individuals with 401(k)s, the average balance in 1987 was $9862. At incomes below $10,000, the average balance among participants was $1628; at incomes above $75,000, the average was $20,350. Not surprisingly, employees were even more likely to participate in a 401(k) plan if their employer matched part or all of their contributions. In 1986, over 75 percent participated when there was employer matching, versus less than 50 percent with no matching. Contributions ranged from 3.5 percent of salary with no matching to 7 percent with 100 percent matching.

Infrastructure Investment Does Not Raise Productivity

Increasing government investment in infrastructure—such as roads, sewer systems, and airports—recently has been proposed as a way to raise productivity in the private sector. However, a new NBER study by **Douglas Holtz-Eakin** finds that such investments have little effect on either output or productivity.

In **Public-Sector Capital and the Productivity Puzzle** (*NBER Working Paper No. 4122*), Holtz-Eakin analyzes how various factors contributed to growth in private sector output in the 48 contiguous states during 1969–86. He finds that a 10 percent increase in a state's work force increased private sector output by 7 percent. A 10 percent increase in private capital increased output by 3 percent. But a 10 percent increase in public capital had essentially no effect on a state's output during this period.

"Increased investments in infrastructure are not likely to increase private sector productivity."

Holtz-Eakin cautions that investments in public capital may provide direct benefits to consumers, such as fewer traffic jams, shorter delays at airports, and cleaner rivers. However, he concludes that increased investments in infrastructure are not likely to increase private sector productivity, as some observers anticipate.

Elderly's High Health Costs Last Several Years

Long-term catastrophic illness threatens both the financial and the physical health of elderly families. Despite existing coverage provided by Medicare, Medicaid, and private health insurance, the risk of a catastrophic medical expense is large. Congressional estimates of out-of-pocket medical expenses for the elderly in 1988 were $2394 per person, or roughly 18 percent of average per capita income. In a recent study for the NBER, **Daniel Feenberg** and **Jonathan Skinner** report that these expenses are not only substantial but also persist for many years.

"An elderly family faced with an unexpected increase of $1000 in out-of-pocket medical spending today will experience increased medical spending of an additional $2800 in future years."

In **The Risk and Duration of Catastrophic Health Care Expenditures** (*NBER Working Paper No. 4147*), Feenberg and Skinner analyze IRS data on thousands of households that itemized deductions and had medical expenses above 3 percent of their adjusted gross incomes in 1968–73. They estimate that an elderly family faced with an unexpected increase of $1000 in out-of-pocket medical spending today will experience increased medical spending of an additional $2800 in future years. Thus, for many elderly families, the risk of spending their life savings quickly is great.

Feenberg and Skinner also find that the burden of out-of-pocket medical expenses is substantially higher for lower- to middle-income elderly families than for higher-income families. For example, they estimate that 10 percent of elderly families with annual incomes of $15,000 spend on average more than 20 percent of their income on out-of-pocket medical expenses over a five-year period. In contrast, only 2 percent of elderly families with incomes of $30,000 spend such a high percentage on medical care.

Declining Unionization Has Increased Wage Inequality

Between 1973 and 1987, wage inequality among American men increased by 25 percent according to

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Statement by Cathy Reynolds

Councilwoman-at-large, Denver, Colorado

on behalf of

The National League of Cities

on

NLC's Economic Stimulus Proposal

before the

House Subcommittee on Economic Development

January 15, 1993

65-382

AN ECONOMIC RECOVERY PLAN OFFERED BY THE NATIONAL LEAGUE OF CITIES

Good morning, Mr. Chairman and members of the Subcommittee on Economic Development. My name is Cathy Reynolds. I am a member of the City Council in Denver, Colorado. I appear before your subcommittee in my capacity as current member and past President of the National League of Cities (NLC) and a current member of the NLC Board of Directors.

Mr. Chairman, on behalf the 16,000 cities and more than 150,000 municipal elected officials represented by NLC, I want to thank you for the opportunity to appear before the Subcommittee on Economic Development to offer NLC's perspective on an economic stimulus package to jump start our nation's economy.

Summary

We believe there must be a major refocus of national priorities to begin rebuilding America. Those steps must involve every community and every business in strategic investment in our country's competitive future. To succeed, it will be essential for us to work together at every level of government to implement an economic recovery plan that will stimulate local economics and the national economy in the short run and produce an environment for investment in our communities and in our people over the long run.

The proposal unanimously adopted by our Congress of Cities -- Democrats, Republicans, and Independents -- last month in New Orleans is divided into three parts:

- restarting our economies through an economic stimulus strategy;
- reforming federal budget priorities for investment and deficit reduction; and
- investing in communities and people.

In our view, restarting our economics and reforming our budget priorities must occur simultaneously. Fundamental changes are critical to move away from consumption and towards strategic investment. Our new leader's motto was "The Economy, Stupid" Focus on the Economy, is the key today.

I know from our efforts to work with you, Mr. Chairman, in both your leadership on the Speaker's Task Force on Infrastructure and on your capital budgeting legislation of your expertise and commitment. We know that the most critical factors in the significantly higher deficit projections come from two areas: reduced revenue projections

deficit projections come from two areas: reduced revenue projections and accelerating health care costs.

Increasing productivity and growth are the only means to restore revenue resources to the federal budget. Adopting strategic comprehensive health care legislation is critical to reducing one of the fastest rising costs-not just to the federal government, but to states, counties, cities, and the private sector.

Productivity, as you know for better than we, depends upon building a public and human infrastructure. It means changing the way we do business in the county. It may change our focus from consumption to investment. It means beginning today to put in place our strategy, for the next century to insure our economy is stronger than that of Japan and a United Europe.

First, NLC supports a short term economic stimulus package that provides:

- A 1993 supplemental appropriation of $2.5 billion to ensure full funding of the nation's new highway and public transportation laws.
- A streamlined version of the urban aid tax bill that will provide immediate assistance to the nation's cities and towns.
- Three billion in one-time supplemental funding for the Community Development Block Grant (CDBG) program to be obligated by September 30, 1993, with $1 billion targeted to children under the age of six.
- One billion in supplemental funding for the 1993 summer youth employment program.
- We support $500 million in supplemental funding to provide incentives for community development banks and bank-run community development corporations.
- NLC supports the immediate enactment of the Local Partnership Act.

Background

Mr. Chairman, in November, the American people sent to Washington a sweeping message of change. The nation's municipal leaders are ready and willing to work with the new administration and Congress to implement changes demanded by citizens to meet their needs and those of the communities they reside in. We must begin now -- at every level of government, in every community, in both the public and private sectors -- to focus on our domestic priorities and begin rebuilding America.

In that regard, steps must immediately be taken to involve every community in forging a future where we can achieve lasting, long term results rather than temporary quick fixes. It is essential that we work together to develop and implement an economic recovery plan that is capable of immediately stimulating our economy while providing an environment for investment in our communities and in our people over the long run.

The National League of Cities has developed an action plan to invigorate the national and local economies - get them growing again through an economic stimulus strategy and reformulation of federal budget priorities for the purpose of increasing investment and reducing the deficit. Cities and towns will play a vital role in economic recovery since most of our nation's economic growth is generated in these communities and most of the taxes and revenues that finance our federal government come from local communities.

Cities and towns already have the leadership, structure and locally-designed projects to move immediately to implement a program to restart the nation's economy. Given a Denver example, these communities also have the people, the resources, and the willingness to make contributions to ensure a partnership for long term investment.

NLC supports working with the new President and Congress to enact a focused economic stimulus package in the first 100 days of the new Administration as part of an overall plan to reorder budget priorities. This plan should rely on tried and tested programs and delivery systems at the local level that have proven their efficiency and effectiveness. They should include:

Transportation

We support a supplemental appropriation of $2.5 billion to ensure full funding of the nation's new highway and public transportation laws this fiscal year. States and local governments have already designated the most critical projects and with advanced commitment to this appropriation increase, those projects would be ready for construction immediately upon enactment. Funds not obligated within six months would than revert back to the Federal Treasury.

Urban aid

We support streamlined version of the urban aid tax bill that will provide immediate assistance to the nation's cities and towns. Key components of the legislation should be permanent authorization of expired municipal tax provisions, establishment of a distressed cities flexible block grant and national public-private block grant program; creation of urban and rural enterprise zones; authorization for all distressed communities to issue municipal economic development bonds; incentives to leverage bank investments in communities and simplification of costly restrictions on municipal bond authority.

In 1991, Mr. Chairman, 84 percent of new public infrastructure construction was financed by state and local governments. We need your help to remove the current legal barriers in the federal tax code to efficient state and local investment, and we need you as an equal partner in the future.

Community Development Block Grant (CDBG)

We support a three billion, one-time supplemental for the Community Development Block Grant (CDBG) program to be obligated by September 30, 1993, with $1 billion targeted to children under the age of six. This family intervention block grant should be the first step in the creation of a new children's human investment trust which could be used to complement a fully-funded Head Start program. In many, many rural cities and small towns, there is simply no space for Head Start classes. If President Clinton is going to fully find Head Start, we need to ensure that every child has a place to learn.

The CDBG program is an efficient, cost effective and scandal free program that benefits low and moderate income households. The CDBG program has been instrumental in providing cities with the flexibility to develop labor intensive programs that meet local needs. The program has helped fund more water lines and sidewalks than any other federal programs. Providing CDBG with an additional $3 billion will provide local communities with funding for community development and infrastructure projects that are ready to implement.

Summer youth

We support one billion in supplemental funding for the 1993 summer youth employment program so that every community has a partnership program with local businesses in place well before the school year ends.

Community development banks

NLC supports $500 million in supplemental funding to provide incentives for community development banks and bank-run community development corporations to make community reinvestment loans for job creating private investment in distressed communities. Local governments should be considered full partners in the creation of these entities.

Local Partnership Act

NLC strongly encourages immediate enactment of the Local Partnership Act, which would provide $3 billion in emergency funds to the nation's cities and towns to initiate ready-to-go capital projects, especially for unfunded federal mandates, such as those required by the Clean Water Act. This initiative should require that any funds not obligated by September 30, 1993 revert to a federal infrastructure revolving loan fund.

Longer Term

We urge the President and Congressional leaders to offer a realistic plan to reorder federal spending priorities and begin to reduce the deficit with clear deadlines for action and clear consequences for failure to meet these deadlines. Federal unfunded mandates force us to sidetrack investments in infrastructure to meet non-local economic priorities.

CBO projects that federal spending on entitlements and interest on the national debt alone will equal total projected federal revenues by the year 2002. That would mean eliminating all defense spending, foreign aid, and domestic investment would be necessary just to balance the budget. We are on a current path of self-destruction.

We are prepared and committed to make very hard choices necessary to make long term investments in our future if we are to have a productive economy.

For this committee, we believe that will involve:

- a renewed federal commitment to promote, encourage, participate in investment in public capital facilities;
- spending federal trust funds for the purposes for which they were accumulated and removing them from Gramm-Rudman calculations; and
- creating a public endowment with dedicated sources of funding for capital investment in the future.

All of us must join together in reshaping federal spending priorities to ensure economic security for our next generation. The nation's cities and towns recognize that any credible plan to balance the budget must include: reducing defense spending by 30 percent in real dollars to a level no greater than $200 billion in budget authority and outlays in 1996 with 60 percent of those savings dedicated to reducing the federal debt and deficit and 40 percent to shifting funds to invest in our cities and towns, acknowledging that many communities will be adversely affected by such measures; limitations on the growth in federal entitlement spending; and revenue measures.

NLC stands ready to join a national effort to make these proposals a reality, and supports using any savings to reduce the national debt and reinvest in our public and human resources. NLC urges strong and swift action to create a strong economic environment in which we can focus on long term investment in communities and in people.

ATTACHMENT

MUNICIPAL TAX PROGRAMS AND ECONOMIC DEVELOPMENT BONDS

Dayton, Ohio. Exemptions from the arbitrage requirements for cities that issue less than $10 million per year in bonds could save thousands of dollars in interest expense if banks were permitted to bid on bond issues from cities issuing less than $20 million annually. City leaders also strongly endorse creation of federal urban and rural enterprise zones, noting that since 1983 state enterprise zones have created and retained approximately 26,000 jobs and generated more than $867 million in new investments. "We believe this would be one of the best new tools the Clinton Administration could give local governments to help them help fill the local economic investment gap," one city leader wrote.

Sioux City, Iowa. Sioux City would use federal enterprise zones to update an area that served as the center for the large regional meat packing industry from the 1880's to the 1950's. It is currently an economic liability with obsolete infrastructure, deteriorating buildings, and fragmented ownership in a 135-acre area. City officials would take advantage of federal enterprise zone legislation to generate appropriate reuse of this industrial river valley.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM (CDBG) AND FAMILY INTERVENTION BLOCK GRANT

Rochester, Minnesota. Rochester would use additional CDBG funds for family service programs, child care services and referral, the Rochester Alliance for the Mentally Ill, and the Rochester Housing and Redevelopment Authority. Past activities funded under CDBG include construction or renovation of facilities such as the women's shelter, Channel One Food Bank, single family home rehabilitation loans and grants for low-moderate income homeowners, a housing project for the disabled, and accessibility improvements to public buildings. Rochester's CDBG funding for 1993 is $445,000.

Columbia, South Carolina. Columbia would be able to target supplemental CDBG to expansion of neighborhood housing and commercial rehabilitation programs. For example, rehabilitation and adaptive reuse of the Eau Claire Survey building, currently a magnet for drug and crime problems, is on the National Register of Historic Preservation. With renovation, reuse, and surrounding infrastructure improvements, the city could anchor redevelopment efforts in this low-income commercial area. Columbia is currently using CDBG funds for inner city housing rehabilitation activities, including multi-family and home ownership efforts and in several neighborhood commercial areas. These programs could be expanded with additional funds.

Sunnyvale, California. Sunnyvale has provided a wide range of services to its citizens with CDBG funds in the past. Examples of future projects with supplemental CDBG

funds include: housing for very low income single parent families; land banking for private/nonprofit joint venture housing; funding for electrical upgrades to lower initial costs to new businesses in redevelopment area; economic development loans to small businesses in an area targeted for redevelopment; expanded funding to outside groups; additional support services to local shelters including provision of teacher there; capital for purchase and rehabilitation of houses for innovative housing such as shared housing for single parent families; increased subsidized day care spaces through vendor vouchers or at subsidized centers; purchase of modular units for a permanent subsidized day care center to replace day care at reopening schools; and increase subsidized loans in mobile home parks with possible assistance to purchase of park by tenants.

West Hollywood, California. West Hollywood believes that programs utilizing additional CDBG funds could be implemented within 30 -60 days with no additional regulatory or legal issues beyond the normal contracting process. Potential projects include: a voucher program for low-income families to provide access to child care for children under six; a recruitment and training program to license more family child care providers to offer quality child care for children under six; educational materials in English, Russian, and Spanish and offer parenting classes; and, in conjunction with the Los Angeles Free Clinic, infant and toddler check-ups and immunization programs.

SUMMER YOUTH EMPLOYMENT PROGRAM

Dayton, Ohio. Supplemental youth unemployment funds in 1993 at 1992 levels would fund 758 additional jobs for a total of 2,077 in the Dayton/Montgomery County JTPA Service Area. According to city officials, 72 percent of the youth served are from the City of Dayton. Jobs would provide training and fill needs within the community with long-term benefits of valuable work experience, increased employability and mentoring received by young people. Past local youth programs include Summer Employment Encourages Kids (SEEK) and Jobs for Dayton Graduates (JDG), and employment of youth in part- and full-time employment by businesses. The city projects that 51 percent of eligible youth could be served at an increased level and only 35 per cent would be served without supplemental funding.

Seattle, Washington. Supplemental summer jobs funding would allow the city to employ an additional 1,800 youth with most receiving summer remedial education. Areas in which jobs might be developed by the school district include science, day care, recreation, library and clerical services, mechanical, gardening using the University of Washington, and local hospitals, as well as state agencies and school bases sites.

Sunnyvale, California. 1992 funds enabled the local Private Industry Council to increase enrollments and develop the work site. Earlier notification of supplement

funds would greatly enhance the program's efficiency, according to the city officials. Last year's funds doubled planned enrollments, and youth received vocational and classroom training and worked on such diverse projects as senior home improvement, senior nutritional programs, a food production garden for a community kitchen, projects serving individuals with disabilities, anti-gang projects, migrant education programs, and targeted programs for at-risk youth.

COMMUNITY DEVELOPMENT BANKS AND BANK-RUN COMMUNITY DEVELOPMENT CORPORATIONS

Dayton, Ohio. While Dayton could take advantage of $500 million in community development bank funding that would provide incentives for private lenders to make community reinvestment loans, the city has not experienced the problems in this areas that other regions have. There has been exceptional local bank compliance with Community Reinvestment Act (CRA) objectives. Community development bank incentives could be most effectively used to establish small businesses in economically-distressed areas of Dayton and create jobs where they are needed the most.

West Hollywood, California. Enactment of a "greenlining" provision would result in loans in areas where banks do not currently lend. This is especially true in West Hollywood where city officials have been working with a task force of bankers for several years and would be able to work with them to make such loans. Housing construction loans for low-income housing, small business loans, and non-traditional lending for projects such as business incubators would all have positive impact on the community.

Minneapolis, Minnesota. Community development banks would assist emerging and expanding small businesses. The lack of sufficient capital for start-ups and expansions has placed a particular hardship on inner city businesses, where additional jobs are desperately needed. Minneapolis neighborhood nonprofit corporations formed the Community-Based Business Development Project which gives inner-city businesses in targeted neighborhoods access to capital along with technical assistance and management training. The project is a public-private partnership administered by a local consortium of nonprofit corporation with city CDBG funds and provides micro-loans (up to $10,000) to finance general business operations, equipment, inventory, and minor remodeling and guarantees the bank loan or funds the loan equally with the participating lender. The goal is to promote new banking practices that will give small businesses a credit history and ultimately enable them to meet their capital needs in the private market. Minneapolis is fortunate to have a network of nonprofit corporations to coordinate both housing and small business loans. Many other cities also have an existing network of nonprofits which could be enlisted to serve as community development banks. In areas without a network of nonprofits, a new

national program can help form local development banks or coordinate with local or certified development agencies. The key to this initiative's success will be ensuring that each center has the capability to provide technical assistance to those businesses with the need.

LOCAL PARTNERSHIP ACT

Dayton, Ohio. City leaders would prefer that enactment of the Local Partnership Act not result in categorical funding schemes. The real benefit of such legislation is the flexibility that it could provide to local governments. Millions of dollars of projects have been necessitated by unfunded federal mandates. Dayton would not use any funds in this area for Clean Water Act compliance. Instead, if limited to ready-to-go capital projects, city officials would use the funds to implement many of the more costly provisions of the Americans with Disabilities Act of 1991 (ADA).

Rochester, Minnesota. Rochester would use local partnership funds to comply with ADA requirements over next several years. The City will have to spend $487,000 on sidewalk accessibility improvements. These funds would be combined with other funding sources, such as CDBG, and allow for improvements to be completed in one year rather than being phased over two to four years.

University City, Missouri. University City is currently conducting an inventory of city facilities, programs, and employment practices to comply with ADA. The preliminary inventory includes immediate costs of $274,444 for renovating City Hall. Other items include renovation of ramped sidewalks at $20,000 per year and marking of disabled parking slips at a projected cost of $6,144.

NATIONAL ASSOCIATION *of* COUNTIES

440 First St. NW, Washington, DC 20001
202/393-6226

STATEMENT FOR THE RECORD

OF

JUDGE KEN STONER, PHILLIPS COUNTY, ARKANSAS

BEFORE THE

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

OF THE

HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

JANUARY 15, 1993

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE ECONOMIC DEVELOPMENT SUBCOMMITTEE. I AM KENNETH STONER, A COUNTY JUDGE FOR PHILLIPS COUNTY, ARKANSAS. I CHAIR THE NATIONAL ASSOCIATION OF COUNTIES' RURAL DEVELOPMENT SUBCOMMITTEE. I AM TESTIFYING ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES (NACo)*, THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS (NADO)** AND THE NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS (NATAT).*** LOCAL GOVERNMENT OFFICIALS JOIN MAKE IN THANKING YOU FOR CONVENING THIS HEARING TO ADDRESS AMERICA'S URGENT NEED FOR INFRASTRUCTURE IMPROVEMENTS AND ECONOMIC STIMULUS IN RURAL AS WELL AS URBAN AREAS.

THE COMMON PERCEPTION OF RURAL AMERICA AS COMPRISED OF FARMLAND AND ROLLING WAVES OF GRAIN MASKS THE ECONOMIC MISERY THAT PLAGUES MUCH OF RURAL AMERICA WHERE POVERTY AND UNEMPLOYMENT ARE HIGH AND OPPORTUNITIES FOR JOB SKILLS TRAINING ARE

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* The National Association of Counites is ithe only national organization that represents county government in the United States. NACo's goals are to improve county government, act as a liaison with other levels of government, serve as the national spokesman for counties, and advance public understanding of the role of counties.

** The Nantional Association of Development Organizations promotes economic development in America's small cities and rural areas. Since its founding in 1967, NADO has been the nation's leading advocate for a regional approach to economic development.

*** The National Association of Towns and Townships is a non-profit member organization offering technical assistance, educational services and public policy support to local government officials from more than 13,000 small communities across the country. It works to assist federal policy makers in understanding the unique needs of small local governments and how to structure federal initiatives so they are workable at the local level.

RESTRICTED, PARTICULARLY FOR THE LESS EDUCATED WHO NEED TRAINING THE MOST. SINCE 1967 WHEN THE U.S CENSUS BUREAU BEGAN COLLECTING COMPARATIVE DATA, RURAL AREAS CONSISTENTLY HAVE HAD HIGHER POVERTY RATES THAN URBAN AREAS. CHILDREN AND THE ELDERLY IN NONMETRO AREAS ARE MORE LIKELY TO BE POOR THAN THEIR COUNTERPARTS IN METROPOLITAN AREAS.

UNEMPLOYMENT CONTINUES TO BE A PROBLEM IN RURAL AREAS BECAUSE OF LIMITED EMPLOYMENT OPPORTUNITIES. THE UNEMPLOYMENT RATE FOR ALL PERSONS IN THE CENTRAL CITY IS ONLY SLIGHTLY HIGHER THAN THE UNEMPLOYMENT RATE FOR NONMETROPOLITAN NONFARM WORKERS.

I HAVE FIRSTHAND EXPERIENCE WITH RURAL POVERTY. PHILLIPS COUNTY IS LOCATED NEXT TO THE MISSISSIPPI RIVER IN EASTERN ARKANSAS. OUT OF A POPULATION OF 28,883, 11,000 ARE DEPENDENT ON FOOD STAMPS.

MR. CHAIRMAN, LET ME EMPHASIZE, AS WE PRESENT THESE COMPARISONS, THAT OUR MESSAGE IS NOT ANTI-URBAN, BUT PRO-DOMESTIC. AS THE CONGRESS AND NEW ADMINISTRATION BEGIN WORKING TO SOLVE OUR NATION'S ECONOMIC PROBLEMS, WE DO NOT WANT YOU TO FORGET THE 62 MILLION AMERICAS WHO LIVE IN RURAL AMERICA.

FEDERAL RESOURCES TO ADDRESS DIRE NEEDS HAVE DWINDLED OVER THE LAST DECADE WHILE THE DEMAND FOR SERVICES AND RISING COSTS TO PROVIDE THOSE SERVICES HAVE INCREASED. SMALLER LOCAL GOVERNMENTS HAVE FEWER RESOURCES AT THEIR DISPOSAL THAN MAJOR URBAN AREAS, YET STILL MUST DELIVER MANY, IF NOT ALL, OF THE SAME SERVICES TO

THEIR RESIDENTS. UNFUNDED FEDERAL AND STATE MANDATES FURTHER STRAIN LOCAL RESOURCES.

IN AN EFFORT TO COPE IN THIS CHANGING ENVIRONMENT, COUNTIES AND OTHER LOCAL GOVERNMENTS HAVE ASSUMED THE PRIMARY RESPONSIBILITY FOR OFFSETTING THESE TRENDS. FOR EXAMPLE, COUNTIES' MAJOR SOURCE OF NEW REVENUES HAS COME FROM THEIR OWN FINANCING METHODS WHICH INCREASED BY 49.2 PERCENT BETWEEN 1979 AND 1989. IN CONTRAST, REVENUE THAT COUNTIES RECEIVED FROM OTHER GOVERNMENTS INCREASED BY ONLY 1.7 PERCENT DURING THAT TEN YEAR PERIOD.

HOWEVER, COUNTY AND OTHER LOCAL REVENUES ARE NOT INEXHAUSTIBLE. MOST COUNTIES FACE LEGAL LIMITATIONS ON THEIR ABILITY TO RAISE THE REAL PROPERTY TAX, THE MAJOR SOURCE OF COUNTY OWN-SOURCE REVENUE. IN ADDITION, LOCAL OFFICIALS HAVE TO CONTEND WITH ORGANIZED RESISTANCE TO PROPERTY TAX INCREASES.

THE ECONOMIC RECESSION AGGRAVATED THE IMBALANCE BETWEEN REVENUES AND EXPENDITURES. LAST YEAR NACo FOUND THAT ONE OUT OF EVERY THREE COUNTIES IN ITS SURVEY OF COUNTIES WITH POPULATIONS UNDER 100,000 FACED A BUDGET SHORTFALL IN FISCAL 1990-91. IN MORE THAN 25 PERCENT OF THE AFFECTED COUNTIES, THE SHORTFALLS WERE EQUIVALENT TO AT LEAST FIVE PERCENT OF THEIR TOTAL BUDGETS.

THE FISCAL PLIGHT OF RURAL AREAS HAS NOT IMPROVED OVER THE LAST YEAR. THIS WEEK NACo, NATaT and NADO RELEASED A SURVEY THAT WAS SENT TO 1,050 RURAL LOCAL GOVERNMENT OFFICIALS AND

DEVELOPMENT ORGANIZATIONS, WITH 330 RESPONDING. I REQUEST THAT A COPY OF THIS SURVEY BE ENTERED INTO THE RECORD.

IN THIS SURVEY OVER HALF (53 PERCENT) SAID THEIR GOVERNMENTS HAD BEEN FORCED TO REDUCE FUNDING FOR INFRASTRUCTURE PROJECTS. OF THESE, 40 PERCENT POSTPONED ROAD AND OTHER TRANSPORTATION IMPROVEMENTS. 41 PERCENT INDICATED THEIR GOVERNMENTS RAISED TAXES OR FEES.

TO ADDRESS THE ECONOMIC SLUMP IN RURAL AMERICA, 70 PERCENT OF THE RESPONDENTS SAID THAT INFRASTRUCTURE SHOULD BE THE NUMBER ONE PRIORITY. THE SECOND PRIORITY WAS ECONOMIC DEVELOPMENT, IDENTIFIED BY 47 PERCENT. THE THIRD MOST FREQUENTLY IDENTIFIED ISSUE, WITH 18 PERCENT, WAS SOLID WASTE MANAGEMENT.

THE REASON FOR THIS RESPONSE IS OBVIOUS. MORE THAN HALF OF THE NATION'S 3.1 MILLION MILES OF RURAL ROADS ARE UNPAVED AND MUCH OF THE PAVED PORTIONS ARE IN POOR SHAPE. IN MY COUNTY, WE HAVE 800 MILES OF COUNTY ROADS, 700 MILES OF WHICH ARE UNPAVED.

THE FEDERAL HIGHWAY ADMINISTRATION ESTIMATES THAT THERE ARE MORE THAN 180,000 DEFICIENT BRIDGES. AND THE ENVIRONMENTAL PROTECTION AGENCY HAS CALCULATED THAT 75 PERCENT OF ALL WASTEWATER FACILITY NEEDS ARE IN RURAL COMMUNITIES OF FEWER THAN 10,000 PERSONS. THESE FACILITIES WOULD COME WITH AN ESTIMATED $13 BILLION PRICE TAG.

INFRASTRUCTURE IMPROVEMENTS ARE NEEDED TO PROVIDE BOTH AN

IMMEDIATE ECONOMIC STIMULUS AND LONG-TERM ECONOMIC DEVELOPMENT IN RURAL AREAS. ACCORDING TO THE SURVEY, THERE ARE 2,882 PROJECTS IN 37 STATES, TOTALLING $2.8 BILLION, THAT ARE READY TO PROCEED IN 90 DAYS. THESE PROJECTS, ALONE, WOULD CREATE 59,068 JOBS. I ASK THAT THIS COMPILATION OF "OFF-THE SHELF PROJECTS" THAT ARE READY TO GO IN RURAL AREAS BE ENTERED INTO THE RECORD.

INFRASTRUCTURE REPRESENTS A SIGNIFICANT LONG-TERM INVESTMENT IN AMERICA. WITHOUT THIS ESSENTIAL FOUNDATION, RURAL ECONOMIC DEVELOPMENT, WILL BE HAMPERED, IF NOT PRECLUDED. SINCE THE DEREGULATION OF MANY TRANSPORTATION MODES - AIRLINES, BUSES AND RAILROADS - RURAL ROADS AND BRIDGES ARE OFTEN THE ONLY TRANSPORTATION NETWORK IN RURAL AREAS. AS A RESULT, THOSE ROADS AND BRIDGES ARE BEING CALLED UPON TO HANDLE GREATER AMOUNTS OF COMMERCIAL TRAFFIC THAN THEY WERE DESIGNED TO HANDLE.

ENVIRONMENTAL INFRASTURCTURE - WATER, WASTEWATER AND SOLID WASTE - ARE ALSO CRITICAL FOR RURAL DEVELOPMENT. MY COUNTY HAS SUBDIVISIONS THAT WERE BUILD OVER 20 YEARS AGO WITH SEPTIC SYSTEMS THAT ARE NOW FAILING. THIS IS CAUSING SEVERE HEALTH AS WELL AS ENVIRONMENTAL PROBLEMS THAT OUR COUNTY SIMPLY DOES NOT HAVE ADEQUATE RESOURCES TO CORRECT.

FEDERAL FUNDS TO ADDRESS THESE AND OTHER INFRASTRUCTURE NEEDS IN RURAL AMERICA WILL PROVIDE A FOUNDATION FOR RURAL COMMUNITIES TO DIVERSITY THEIR ECONOMIES AND ADDRESS VITAL NEEDS OF OUR CITIZENS.

MR. CHAIRMAN, THE NATIONAL ASSOCIATION OF COUNTIES, THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS AND THE NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS ARE EAGER TO WORK WITH YOU AND THIS SUBCOMMITTEE IN DEVELOPING LEGISLATION WHICH WILL STIMULATE THE ECONOMY AND FOSTER INVESTMENT IN THE LONG-TERM ECONOMIC GROWTH OF THE NATION. LOCAL GOVERNMENTS FEEL THAT THE LEGISLATION YOU DRAFT SHOULD INCLUDE A FORMULA DISTRIBUTION, SIMILAR TO THE NEW THAT WAS IN THE LOCAL PARTNERSHIP ACT LAST YEAR, THAT SPECIFIES FUNDS SMALLER UNITS OF GOVERNMENTS ARE TO ACHIEVE.

MR. CHAIRMAN, THIS LEGISLATION SHOULD, AND WE ANTICIPATE WILL, BE A CORNERSTONE FOR AN EFFECTIVE PARTNERSHIP BETWEEN FEDERAL, STATE AND LOCAL GOVERNMENTS. THANK YOU.

Rural America:

Worth the Investment

January 13,1993

National Association of Counties

NADO
National Association of Development Organizations

National Association of Towns and Townships

NACo, 440 First Street N.W., Washington, D.C. 20001 (202) 393-6226 • NADO, 444 N. Capitol Street, N.W., Suite 630, Washington, D.C. 20001 (202) 624-7806 • NATaT, 1522 K Street, N.W., Suite 600, Washington, D.C. 20005 (202) 737-5200

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Executive Summary

Rural America: Worth the Investment

Three associations* have joined together to highlight the needs of rural citizens and urge the President and Congress to "Invest in Rural America" as part of any federal initiative to solve the nation's economic problems. Leaders of the three groups said their message was "don't forget the 62 million Americans who live in non-metropolitan (rural) America as you develop a new domestic policy in the first 100 days."

In response to a survey of 1050 rural elected officials and regional development organizations, 70 percent of the 331 responding said that infrastructure is their number one concern; 47 percent said economic development and 18 percent listed solid waste and other environmental issues.

When asked for a list of "ready-to-go" infrastructure projects that could be underway in 90 days, the rural officials identified 2,882 projects requiring $2.9 billion of public investment and creating 59,068 jobs.

When asked to identify the greatest impediments in using federal programs, nearly half (44 percent) of the local officials cited inflexibility, excessive paperwork and red tape. Over half (53 percent) said their governments had been forced to reduce funding for infrastructure projects and 41 percent had raised taxes or fees.

According to U. S. Census data:

- In 1991 the poverty rate in rural areas was higher (16.1 percent) than in urban regions (13.7 percent)
- A higher percentage of children and the elderly in rural areas are poorer than in metropolitan areas
- The unemployment rate is higher in nonmetropolitan (7.0 percent) than metropolitan (6.6 percent)

Rural counties, towns, townships and regional development organizations made the following recommendations to Congress and President-elect Clinton:

1. No federal law or regulation should be enacted without accompanying funds.
2. Additional federal funding should be provided for infrastructure including roads, bridges, water wastewater and solid waste disposal.
3. The requirement for local match should be waived for distressed communities.
4. Rural governments should be allowed more flexibility in meeting federal mandates and existing federal programs should be coordinated to make better use of available funds.
5. Priority funding for existing federal rural programs should be aimed at job creation, job training, economic development, technical assistance and increasing capital for small business development.

* The National Association of Counties (NACo), National Association of Development Organizations (NADO) and the National Association of Towns and Townships (NATaT) represent local governments and their regional development organizations throughout rural America.

A Profile of Rural America

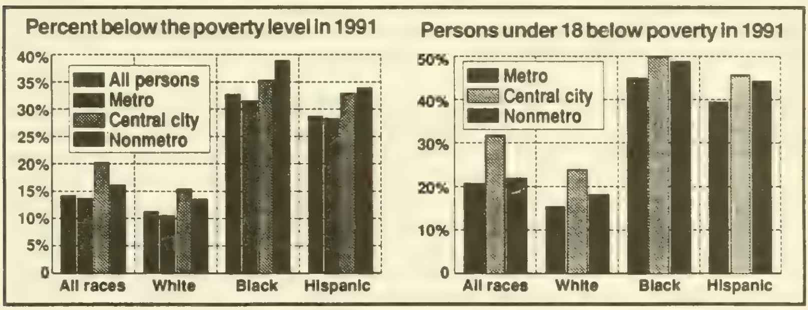
While the needs of urban areas are indisputably real, there has been virtually no discussion, either during the campaign or since the election, of the needs of the nation's rural communities, especially the smaller ones which have extremely limited resources with which to help themselves. Rural communities have long been praised for the values that are instilled in their residents. But as the statistics below make readily clear, rural life is not always the ideal which some images would suggest. According to the federal government's own statistics, many of the problems that urban leaders point to such as **poverty, unemployment, access to jobs and infrastructure construction and repair, are as bad, if not worse, in small communities and rural areas.**

Our nation is largely one of small communities, composed of cities, counties, towns, townships, villages and boroughs. Small local governments are the vast majority of all local governments in the United States. **Eighty-six percent of all general purpose local governments in the U.S. are under 10,000 in population, and half have fewer than 1,000 residents. Seventy-four percent of the nation's counties are under 50,000 in population.** Though these smaller local governments have fewer resources at their disposal than major urban areas, they must still deliver many, if not all, of the same services to their residents that urban areas provide.

Poverty and unemployment

Poverty has come in recent decades to be considered an urban issue. However, since **1967, when rural and urban poverty data began being collected, rural areas have consistently had higher poverty rates than urban areas.** In 1991, the poverty rate for persons living in nonmetropolitan areas was higher (16.1) than the poverty rate in metropolitan areas (13.7) (See chart #1 below). However, a more interesting measure might be a "worst-case" comparison between nonmetropolitan areas and central cities. Since 1987, central cities have had a higher poverty rate, but the two rates are close.

Chart #1



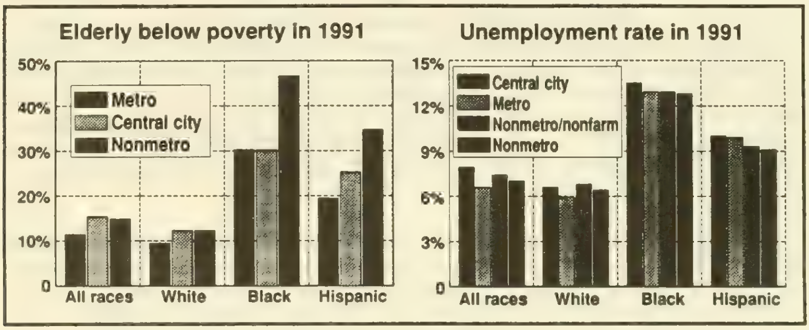
However, when one looks at poverty by race, **only whites have higher rates in central cities than in nonmetropolitan areas.** Both blacks and Hispanics in nonmetro areas have higher

poverty rates than their central city counterparts. (See chart #1)

Additionally, **children (below age 18) in nonmetro areas are more likely to be below the poverty level than children in metropolitan areas.** Moreover, poverty among black and Hispanic children from nonmetro areas is about the same as for black and Hispanic children from inner city areas. (See chart #1)

Finally, **elderly nonmetro residents are more likely to be poor than metro elderly.** Almost half of elderly nonmetro blacks are in poverty, compared with less than a third in central cities, while over a third of the Hispanic nonmetro elderly are below poverty, compared with a quarter of central city Hispanic elderly. (See chart #2)

Chart #2



Unemployment continues to be a problem in rural areas because of limited employment opportunities. **The unemployment rate for all persons in the central city is only slightly higher than that for nonmetropolitan nonfarm workers.** The unemployment rate for nonmetropolitan white workers not employed in farming is higher than the rate for their central city counterparts. A comparison of the same rates for blacks and Hispanics shows that there is only a slightly higher unemployment rate for central city persons. (See chart #2)

Getting rural residents out of poverty and into the workforce poses special problems because of the educational attainment and training of rural residents. This issue was explored recently by the Economic Research Service (ERS) of the U.S. Department of Agriculture. Interestingly, it found that a rural high school education is often superior to an urban education, based on achievement scores. ERS also found little difference between the typical metro and nonmetro worker 25 years of age or older who has a high school degree but not a college degree.

However, **rural workers were less likely to have finished high school**, attended college, earned a bachelor's degree or earned a professional or graduate degree. While the rural-urban high school graduation gap has been decreasing recently among younger age groups, the college education gap has been increasing. This is in part because younger and better (college) educated persons are leaving rural areas for career opportunities in urban areas. According to ERS,

counties in an area with greater than a million people grew by 12 percent between 1980 and 1990. In contrast, the smallest nonmetropolitan counties—those not adjacent to a metro area and with no city with a population as big as 10,000, shrank by slightly less than one percent.

The ERS research also showed that the more rural a community, the lower the educational attainment; in contrast, "inner city" counties (counties with large metropolitan areas) did not show a similar lack of educational attainment. Rural students are less "tracked" into advanced education paths, in part because fewer rural high schools offer advanced placement courses.

Finally, the research also showed that while there was only a slight rural gap in job skills training, those who need training the most (the less educated) were less likely to receive post-high school job skills training. This was especially true for minorities. Rural companies are often limited in their ability to offer employee training because of their small size. With job skills training an apparent priority for the Clinton Department of Labor, this disparity will hopefully be addressed.

Infrastructure

There is a great need to build or maintain infrastructure in rural areas. Without necessary infrastructure investment, rural development will be hampered, if not precluded. **Since the deregulation of many transportation modes—airlines, buses and railroads—rural roads and bridges are often the only transportation network in rural areas.** As a result, those roads and bridges are being called upon to handle greater amounts of commercial traffic that they weren't designed to handle, in addition to "normal" traffic such as travel to work and school or for public safety services.

Rural areas contain 80 percent of the nation's bridges. By 1990, the nation's larger rural roads contained 76,595 deficient rural bridges out of more than 250,000 rural bridges. Smaller "local" roads had another 105,000 deficient bridges. Overall, roughly 40 percent of 463,000 rural bridges are deficient.

Not only are rural bridges in poor repair, so are rural roads which constitute **3.1 million of the nation's 3.9 million miles of road**. Almost three-fourths of these roads are under local control. More than half of all rural mileage is unpaved, as one would expect because of the large number of collector and local roads under local jurisdiction. **Many collector roads and most local roads are ineligible for federal transportation funding**. The nation's best system of roads, the interstate highway system, only runs through a third of the nation's nonmetropolitan counties, adding to the isolation of rural areas.

Of particular importance to rural communities is infrastructure needed to meet the growing number of largely unfunded federal environmental mandates. Typical are waste and water treatment facilities needed to make drinking water contaminant-free and treat wastewater that is discharged into lakes and streams.

One study by the Center for Community Change notes that Environmental Protection Agency (EPA) data reveal that **"75 percent of all documented [wastewater] facility needs are in rural communities of fewer than 10,000 persons."** These facilities would come with an estimated

$13 billion price tag, roughly one fourth of what EPA estimates is needed nationally. The report goes on to note that because of the way funds are allocated, "states with significant rural needs will receive considerably less federal SRF [State Revolving Fund] funding than states with higher-cost urban projects." Wastewater facilities in rural counties—and especially poor rural counties—were found to account for most of the backlog of secondary treatment facilities needed to meet Clean Water Act standards; the highest incidence of noncompliance with discharge permit standards; and the largest share of noncompliance situations requiring new facilities where none now exist.

A major barrier with regard to wastewater projects in rural areas is that poor communities cannot develop affordable projects because they cannot achieve the economies of scale necessary to result in reasonable customer rates. Too much cost is spread over too few customers. The problem of high per capita cost projects is not unusual for rural projects. One of the most glaring examples is rural drinking water systems. **The EPA has estimated that for some small drinking water systems to meet federal drinking water standards, the cost will exceed $1,500 per household annually.**

These are just a few areas where federal policy should be reexamined and refocused to ensure that residents of Rural America are not left behind by the new administration as it pursues policies to increase infrastructure investment, create jobs and protect the environment.

There are many other areas where rural local governments and their citizens are in as great a need as urban residents for proactive federal assistance: access to medical facilities, physicians and affordable health care plans; creation of more affordable and better quality housing; improvement in rural telecommunications infrastructure; and relief from burdensome federal regulations which create a disproportionate amount of administrative costs on local governments, especially smaller ones.

As the Clinton administration moves ahead to face the challenges of governing this nation, administration policy makers should ensure that rural communities and their elected officials are able to compete for funding with their urban counterparts on a level play field, and that federal programs and regulations are not continued in an inflexible "one-size-fits-all" format in which all the nation's 39,000 local governments are considered alike.

NADO RURAL DEVELOPMENT AND RELATED DOMESTIC BUDGET ANALYSIS - 1993 BUDGET						
(Millions of Dollars)			Proposed	Approp.	Change	% Change
	1980	1992	1993	1993	1992-1993	1992-1993
DEPARTMENT OF AGRICULTURE						
Farmers Home Administration / RDA						
Water & Waste Disposal Grants	290.0	350.0	300.0	415.6	65.6	18.7%
Water & Waste Disposal Loans	700.0	600.0	600.0	635.5	35.5	5.9%
Water & Waste Disposal Loans *	—	35.0	0.0	35.0	0.0	0.0%
Community Facility Loans	240.0	100.0	100.0	100.0	0.0	0.0%
Community Facility Loans *	—	25.0	100.0	100.0	75.0	300.0%
Business and Industry Loans *	1,073.8	100.0	100.0	405.0	305.0	305.0%
Intermediary Relending Loans(1980 HHS)	20.0	32.5	35.0	48.0	15.5	47.7%
Rural Development Grants	10.0	20.8	35.0	20.8	0.0	0.0%
Solid Waste Management Grants	—	3.0	0.0	3.0	0.0	0.0%
Fire Protection Grants	3.5	3.5	0.0	3.5	0.0	0.0%
Planning Grants (Sec. 111)	6.0	0.0	0.0	0.0	0.0	0.0%
Sec. 515 Rental Housing Loans	881.3	573.9	341.0	573.9	0.0	0.0%
Resource Cons. & Development Loans	1.8	0.6	0.0	0.6	0.0	0.0%
Emergency Community Water Assistance Grants	—	10.0	0.0	25.4	15.4	154.0%
Forest Service Economic Development	0.0	5.0	2.9	n/a	n/a	n/a
Rural Electrification Administration						
Rural Development Grants	0.0	5.0	0.0	0.0	-5.0	-100.0%
Rural Development Loans	0.0	8.4	16.0	12.4	4.0	47.6%
SCS - RC & D Projects	32.0	32.5	23.6	32.5	0.0	0.0%
APPALACHIAN REGIONAL COMMISSION						
Total Non-Highway Programs	126.6	36.4	38.6	50.3	13.9	38.2%
Research, T.A., Other	2.6	2.0	2.0	3.9	1.9	95.0%
Local Development Districts	5.7	3.2	3.2	3.2	0.0	0.0%
Appalachian Highway Systems	228.7	147.6	56.0	135.6	-12.0	-8.1%
DEPARTMENT OF COMMERCE						
EDA - Total Program Funds	531.5	226.8	0.0	217.0	-9.8	-4.3%
Planning Grants	33.6	25.3	0.0	24.8	-0.5	-2.0%
Public Works	260.7	154.2	0.0	147.4	-6.8	-4.4%
Economic Adjustment Grants (Title IX)	85.9	23.0	0.0	172.1	149.1	648.3%
Technical Assistance	30.7	9.9	0.0	9.0	-0.9	-9.1%
Research & Evaluation	4.2	0.5	0.0	0.0	-0.5	-100.0%
Direct Loans	116.4	0.0	0.0	0.0	0.0	0.0%
Trade Adjustment Assistance	n/a	14.0	0.0	13.7	-0.3	-2.1%
Loan Guarantees *	425.0	5.0	0.0	0.0	-5.0	-100.0%
Salaries & Expenses	40.8	27.6	13.8	32.1	4.5	16.3%
REGIONAL DEVELOPMENT (Title V)	109.4	0.0	0.0	0.0	0.0	0.0%
ENVIRONMENTAL PROTECTION AGENCY						
State Revolving Funds (construction grants)	4,900.0	2,365.0	2,500.0	2,335.0	-30.0	-1.3%
DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Community Service Block Grant(80-81 CSA)	550.5	437.4	5.0	441.0	3.6	0.8%
National Health Service Corp.	153.6	101.5	120.0	118.6	17.1	16.8%

NADO RURAL DEVELOPMENT AND RELATED DOMESTIC BUDGET ANALYSIS - 1993 BUDGET						
(Millions of Dollars)			Proposed	Approp.	Change	% Change
	1980	1992	1993	1993	1991-1992	1991-1992
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Comm. Dev. Blk. Grant-CDBG (30% rural)	3,862.0	3,400.0	2,900.0	4,000.0	600.0	17.6%
Urban Dev. Act. Grant-UDAG (25% rural)	675.0	0.0	0.0	0.0	0.0	0.0%
Section 108 Loans *	157.0	140.0	0.0	300.0	160.0	114.3%
Rehabilitation Loans (312)	214.2	0.0	0.0	0.0	0.0	0.0%
Home Blk. Grant (40% State Allocation)	—	1,500.0	700.0	1,000.0	-500.0	-33.3%
HOPE	—	251.0	1,010.2	361.0	110.0	43.8%
DEPARTMENT OF INTERIOR						
State Outdoor Rec. (LWCF) Grants	318.6	19.7	56.5	24.8	5.1	25.9%
State Historic Preservation Grants	43.8	28.8	29.2	29.0	0.2	0.7%
Payment in Lieu of Taxes (BLM)	108.0	103.7	105.0	105.0	1.3	1.3%
DEPARTMENT OF LABOR						
JTPA Adult/Youth Programs (1980 CETA)	3,342.0	1773.5	1,771.6	1,741.7	-31.8	-1.8%
Summer Youth (1980 CETA)	2,330.5	682.9	682.9	670.7	-12.2	-1.8%
Dislocated Worker (1980 Trade Adj. Asst)	1,664.4	577.0	571.1	566.6	-10.4	-1.8%
Comm. Service Empl. for Older Amer.	266.9	395.2	342.8	390.1	-5.1	-1.3%
SMALL BUSINESS ADMINISTRATION						
503/504 Cert. Development Co. Loans *	250.0	682.4	682.4	700.0	17.6	2.6%
Sec. 502 Dev. Company Loans *	44.7	43.4	43.4	39.6	-3.8	-8.8%
General Business Loans (7A) *	3,000.0	6,039.0	6,039.0	3,250.1	-2,788.9	-46.2%
Small Bus. Investment Co. Loans *	148.8	85.5	85.5	136.1	50.6	59.2%
Minority Ent. SBIC Loan *	32.5	18.5	60.0	17.4	-1.1	-5.9%
SBDC Program	3.9	60.5	0.0	67.0	6.5	10.7%
Micro-enterprise Loan Program	—	44.6	0.0	31.4	-13.2	-29.6%
Micro-enterprise Technical Assistance	—	7.0	0.0	6.0	-1.0	-14.3%
TENNESSEE VALLEY AUTHORITY						
Economic & Community Resources	12.4	16.0	0.0	n/a	n/a	n/a
DEPARTMENT OF TRANSPORTATION						
Surface Transportation Program	—	1,195.0	3,600.0	n/a	n/a	n/a
Sec. 18 Federal Transit Grants (100% rural)	57.1	105.6	86.1	n/a	n/a	n/a
Local Rail Freight Assistance	82.6	11.5	0.0	8.0	-3.5	-30.4%
Essential Air Service	95.8	38.6	38.6	38.6	0.0	0.0%
DEPARTMENT OF TREASURY						
General Revenue Sharing	6,854.9	0.0	0.0	0.0	0.0	0.0%
NOTE:						
* - loan guarantee authority						
— - program did not exist						
n/a - not available						10/16/92

This Special Report was prepared by NADO Legislative Analyst, Scott D. Whipple and Research Associate Gregory Schiefelbein

SUMMARY SURVEY OF RURAL OFFICIALS

Rural officials are faced with a number of issues relating to budget cuts, reductions in service and how to improve infrastructure as well as stimulate job growth in their communities. In a recent survey rural officials were asked a number of questions relating to the above issues.

NACo, NADO, and NATaT sent out a total of 1,050 surveys to local government and regional development officials. The joint return was 331, a response rate of 32 percent.

Infrastructure concerns were the top priority cited in the survey. Of those responding, 70 percent said that infrastructure was the number one concern. The definition of infrastructure included roads and bridges, water and wastewater systems, as well as capital facilities such as schools, jails, and municipal buildings.

A second priority was economic development, identified by 47 percent of those responding. Local officials were concerned with creating or expanding the economic base of their communities, creating new and better paying job opportunities, business recruitment and financing concerns, as well as capital for rural community and economic development.

The third most frequently identified priority for rural government officials was solid waste management. Of those responding, 18 percent were concerned with solid waste and other environmental issues.

Impediments

The survey asked local government and development leaders to identify the greatest impediments faced by their governments in implementing federal programs. The greatest impediment, identified by 44 percent of those responding, was "red tape" and the inflexible nature of federal programs. Local officials complained that federal programs required excessive administrative duties and too much paperwork (25 percent), complicated implementation procedures, and are overregulated .

An additional burden placed on rural officials is the lack of capital for planning and technical assistance. Many federal programs require a level of funding and technical expertise not always available to local officials.

Local and regional officials cited the lack of communication among federal agencies, and among federal agencies and state and local governments as causing an excessive burden. Also mentioned as an impediment was the lack of consistency among federal agencies in interpreting regulations.

Financial Stability

Officials were asked how their governments responded to reductions in federal and state funding. To offset these cutbacks, 41 percent said their governments were forced to raise taxes and/or fees. An additional 53 percent said their governments made reductions in capital projects. Of these, 40 percent postponed road and other transportation improvements, while 27 percent put off parks and recreation projects.

Officials were asked to identify what holds the greatest potential for job creation in their communities. A number of suggestions were made by local government and development officials, including: small business development, tourism, manufacturing and industrial development, and new forestry and agricultural concepts, such as value-added products.

Although many officials listed a number of projects they would like to see implemented to stimulate job and economic growth, the lack of capital was cited as a hindrance to carrying out these efforts.

The responses of most surveys was summed up by a statement made by a local official from Pamilico County, North Carolina: "The unavailability of capital for infrastructure projects, such as sewage treatment and disposal systems, has greatly limited job creation in our county. Also the stringent requirements of the regulatory agencies at the federal and state levels have limited our abilities to attract industries."

QUOTES FROM SURVEY RESPONDENTS

"If rural counties had good schools and a stable industrial base, we could legitimately offer Americans a life-style that is healthier than life in major metropolitan areas."

-Hazen Blodgett, Assistant County Manager, Halifax County, North Carolina.

"Rural counties need to diversify and expand their economic base to provide jobs in low-cost living areas, become centers for environmental industry oriented businesses. Continue to be the "safety net" for the underprivileged, improve the quality of life in our communities."

-Reagan Wilson, Chief Executive Officer, Stanislaus County, California.

"In my opinion, tax dollars should be administered as near to the source as possible. Much more can be accomplished with fewer dollars."

-Dale Weakener, Judge, Boone County, Arkansas.

"Assist small business in creation of jobs; assistance on replacement of existing infrastructure and development of new infrastructure to serve expanding population basis; reduction in health care costs; national direction for the economy; continuation of primary and adult education programs to train the work force."

-Lynn Cartlidge, President of the Board of County Supervisors, Forrest County, Mississippi.

"Rural America is far more than farmland. Although rolling waves of grain dominate the popular perception of rural life, non-agriculture jobs comprise 90 percent of rural employment. Even on family farms, 60 percent of the total income is from non-farm sources."

-Robert J. Paciocco, Executive Director, Mid-East Commission, Washington, North Carolina.

"The cost of implementing EPA standards for public facilities--sewer, water, landfill, etc.,--is often beyond the reach of our smaller communities. By complying with the EPA regulations for facility upgrades and new environmental statutes, no funds remain from their limited budgets for other commodity needs such as new school buildings, roads, and growth-oriented projects for economic development.

-Joseph L. Herring, Executive Director, Regional IV Development Association, Twin Falls, Idaho.

"Timing is an issue. A problem will arise and it takes too long for a local government to access these federal funding sources, and if two or more federal funding sources are utilized, there is often a lack of coordination between their program deadlines and award of funds. Many times due to lack of local staff and their training, the capacity to respond is limited. In addition, regional development organization staff may be unable to provide the necessary technical assistance to local governments due to resources not being sufficient."

-Ronald J. Radil, Executive Director, West Central Nebraska Development District, Ogallala, Nebraska

"Federal funds have so many strings attached and hoops to jump through that I doubt we would ever apply again. We have no businesses because we have no sewerage."

-Catherine Urness, Clerk, Town of Belgium, Ozaukee County, Wisconsin.

"We need the opportunity to participate in federal programs as a small town with small projects. Our taxes went up by 71 percent to cover debt necessary to fund a state road in our township, purchase a grader and enlarge our buildings."

-Jack Walter, Supervisor, Athens Township, Bradford County, Pennsylvania.

"Rural government can help the county greatly by setting an example of how people can work together regardless of their political affiliation."

-Cynthia Young, Clerk, Town of May, Washington County, Minnesota.

RECOMMENDATIONS

1. No federal law or regulation should be enacted or implemented without accompanying funds.

2. The number one priority need in rural America is investment in infrastructure.

   - Roads and bridges were identified in the survey by local governments as being their most important priority. Congress should fully fund the Intermodal Surface Transportation Efficiency Act (ISTEA).

   - Environmental infrastructure—water, wastewater, solid waste—was the largest need. Congress should fully fund programs aimed at water quality, safe drinking water, and solid waste disposal.

   - Eliminate or reduce local match requirements for distressed communities.

3. Congress and the Administration must recognize the diversity in rural America. Rural communities need flexible programs and regulations which can be adapted to their own unique circumstances.

   - Local elected officials should be a key partner in the development and implementation of federal programs.

   - Congress should enact flexible programs that allow implementing agencies to adapt regulations to address the diversity in rural areas.

   - The Administration should enforce the Regulatory Flexibility Act of 1980 which requires Federal Agencies to develop flexible approaches for small local governments (those under 50,000 populations) to meet federal goals.

   - Continue support for the National Initiative on Rural Development.

4. Priority funding of existing federal programs targeted to rural areas should be aimed at job creation and retention, job training, and economic development programs.

   - Proactive technical assistance must be provided for those small communities which do not have the resources or expertise to share equally in the benefits of programs for rural America.

   - Link job creation with an educational and job training strategy to retain rural youth.

   - Increase the amount of capital and credit available for small businesses in rural America.

DESCRIPTIONS OF ORGANIZATIONS

The National Association of Counties (NACo) is the only national organization that represents county government in the United States. NACo's goals are to improve county government, act as a liaison with other levels of government, serve as the national spokesman for counties, and advance public understanding of the role of counties.

Nearly two-thirds of the county's 3,045 counties are members of NACo. These counties range from urban Los Angeles County with a population of more than 8 million to tiny Loving County, Texas, with a population of 100.

With headquarters on Capitol Hill, NACo is a full-service organization that provides legislative representation, research, and technical and public affairs assistance.

Larry Naake, Executive Director (202-393-6226 extension 201; Ralph Tabor, Legislative Director Ext. 254; Richard E. Keister, Associate Legislative Director, Ext. 231; and Michael Sowell, NACo Fellow Ext. 255.

National Association of Counties
440 First Street, NW
Washington, DC 20001

The National Association of Development Organizations (NADO) promotes economic development in America's small cities and rural areas. Since its founding in 1967, NADO has been the nation's leading advocate for a regional approach to economic development.

NADO members are regional development organizations that provide economic and community development assistance to local governments and the private sector.

The association provides a network for professionals and local elected officials to share information about innovative, practical approaches to economic development.

Aliceann Wohlbruck, Executive Director; Scott D. Whipple, Legislative Analyst at (202) 624-7806.

National Association of Development Organization's
444 North Capitol Street, NW; Suite 630
Washington, DC 20001

The National Association of Towns and Townships (NATaT) is non-profit member organization offering technical assistance, educational services and public policy support to local government officials from more than 13,000 small communities across the country. It works to assist federal policy makers in understanding the unique needs of small local governments and how to structure federal initiatives so they are workable at the local level.

Jeffrey H. Schiff, Executive Director; Tom Halicki, Director of Federal Affairs (202) 737-5200

National Association of Towns & Townships
1522 K Street, NW; Suite 600
Washington, DC 20005-1202

TO: UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
NORMAN Y. MINETA, CA, CHAIRPERSON

THE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
ROBERT E. WISE, JR., UNITED STATES REPRESENTATIVE, WV, CHAIRPERSON

FROM: WARREN R. WAGGY, MAYOR
THE TOWN OF FRANKLIN, WEST VIRGINIA

DATE: 15 JANUARY 1993

We want to express our appreciation to the Chair and to all the members of this Subcommittee on Economic Development for the opportunity to express our views and concerns to such an august body.

We have come with so many seemingly unsolvable situations and problems which exist in the small community which we represent, that any attention to our condition is likened to a breath of fresh spring air.

In our association with other communities and towns, we have determined that our town is not peculiar or unique in its problems.

As Mayor of Franklin, West Virginia, a most beautiful town located on the central, eastern border with the State of Virginia, our way of life can be likened to that of the Shenandoah Valley of Virginia. However, we do not share in that area's prosperity -- so close and yet so far away. This condition places an exceptionally severe burden upon us.

As our young people reach the age of making their own way, they are compelled by jobs to leave for a more affluent way of life. We do not place blame upon them. They are to be commended for displaying such initiative. However, this condition leads to a decreasing population and places the community challenges on fewer and fewer residents.

We here in West Virginia are fiercely independent. This is borne out by the motto on the Seal of our Great State. We are willing to do our part in moving this wonderful nation ahead into a positive economic future, as well as any other aspect, provided, we can get up to ground zero. As most communities, we in Franklin, West Virginia, are constantly playing catch-up. Governmental Agencies impose laws and restrictions without providing resources for their implementation.

Our watershed is part of the headwaters of the Potomac River. We continually receive direction to keep this water source clean and pure. This is good, but we need help with the process. The town of Franklin, West Virginia, is in the early beginnings of improvements at the site of its water supply source. We have received a sixty percent grant from our state, with the remaining forty percent to be bonded by the municipality. This is about all

the funding which we can service by revenues, and yet, this will not address transmission and distribution. Some of this piping has been in service more that fifty years! Many days we would gladly donate the mayor's annual fifteen hundred dollar salary toward the installation of new pipe.

Transportation is essential for economic growth. Our highways are in dire need of improvement, not just for today's requirements, but for growth in the future.

Franklin, West Virginia, is situated in an area bounded by Interstates 81, 64, 79 and 68. However, all are too distant for economical transportation service. We have been advised that the route of the "Corridor H" connection in Interstate 79 in WV and 66 at Strasburg, VA., will be decided this April '93. This highway is already funded by our federal government. Originally, a southern route was determined to be the best and most economical. After environmental pressure was exerted, we were presented with a northern alternative. This northern route is more expensive and will not open central West Virginia to eastern markets. Perhaps the choice is to be made as to which is the endangered species -- man or trout.

Education is paramount to economic development. Job training, whether original or re-training cannot be denied. School systems with the ultimate in financial resources and a learning atmosphere are a must for future growth. Our youth is our nation.

Small communities need jobs. Jobs with a respectful wage. Jobs will be created when business feels the need to develop, expand and relocate. However, water supply, sanitary sewerage disposal, highways, schools, and a labor force with a good work ethic are all part of the elements of a positive economic atmosphere. We can supply the work force.

Our County, Pendleton, of which Franklin is the county seat, is forty-eight percent national forest. Only a small amount of revenue comes into our treasury through timber sales from this large area, which we understand are made at a loss at the onset.

We are the fifth largest county, in size, of fifty-five in West Virginia with a population under 9,000. The same attention to services and regulations is required as those of densely populated areas. We do not have the tax base to meet these requirements.

What we have given you are just a few of the concerns which surely pertain to most small town and communities across our nation. Time is of the essence.

Small town and cities, with their extremely low major crime rate, in spite of the constant day to day catch-up emergencies, are still wonderful places in which to live.

Members of this committee, areas such as mine need jobs. Jobs with a respectful wage to offer hope, and a short funding pipeline.

This will inspire us to take the initiative and will go a long way in curing many of the economic ills of our great nation -- a nation unequaled throughout the world.

We look to you for leadership.

We thank you.

Testimony Before
The Subcommittee for Economic Development
of the
Committee for Public Works and Transportation
Congress of the United States of America
Chairman, Robert E. Wise, Jr.

January 15, 1993

Gary R. Wilson, Presenter,
Coordinator for the Pendleton County Economic
and Community Development Authority

I would like to thank the Chairman, the Honorable Robert Wise of West Virginia and the Committee for allowing me to testify today concerning the needs of rural communities for infrastructure investment by the Federal Government.

I serve as the Economic and Community Development Coordinator for Pendleton County and in that role I must attempt to bring firms considering relocation to our community to create employment and also to work to retain those firms that are already employing our citizens. One of the greatest challenges facing our efforts in Pendleton to create meaningful labor is the lack of sufficient infrastructure.

Though we have been active in addressing this concern much is left to be accomplished if we are to realize our potential as a community to contribute to the wealth of West Virginia and the United States. We believe that Pendleton County has much to offer. *The Washington Post Magazine*, November 22 issue referred to Pendleton County as, "One of the most beautiful places anywhere." One third of our land is National Forest and we are primarily an agricultural community with unspoiled vistas, pure streams and abundant wild life.

Moreover we are well situated to serve the eastern half of the United States as a central point for the distribution of manufactured goods and the processing and handling of data. We are within twenty-four hours drive of 65% of the nation's population and only three hours drive from Washington D.C., Richmond, and Baltimore.

We are also uniquely blessed with one of the most up to date fiber optics communications links. We are, therefore, within the speed of light by phone and fax of those communities beyond convenient driving range and we are able to serve nearby communities with speed and efficiency. As this is our only infrastructure component of high quality, we place an emphasis on its utilization for future planning and development.

Even though we are near the centers of commerce, possess high tech telecommunications, and have some of the greatest natural beauty anywhere, we have little opportunity for employment, We have high rates of recorded poverty, and we have an extremely low per capita income. We feel a major contributing factor to the poor economic showing of Pendleton County is the lack of infrastructure that we currently suffer.

Roads to Pendleton inhibit commercial traffic. The Federal Highway Administration currently lists the Level of Service of many of Pendleton's roads as 'D' and 'E' where 'C' is the lowest acceptable standard. Projection to the year 2010

shows greater deterioration still. Poor road quality has protected our community from some of the lesser cultural developments in our Nation but it has also reduced opportunity and employment.

Water availability is also a constraint to developing opportunity. This is a particular irony as the well-spring of the Potomac is partly in Pendleton County. Many pure streams and springs feed water to Washington and the Chesapeake Bay but this pure water is insufficiently tapped and utilized in Pendleton due to the cost of creating infrastructure. Neither private industry nor sufficient tax revenue exists to create what, in many cases, would be the first investment in infrastructure for water collection and dissemination in several of our communities.

Unfortunately the many areas serviced by wells do not have pure water as the proximity of septic systems and other contaminants pollute the drinking water of those areas. Existing water systems do not have the capital accumulated to expand their service or supply. As those systems are now at peak capacity the ability to add new residential customers and business customers is unlikely.

We have, however, had some modest success in applying for grants to address the shortfalls in the Franklin Water System. Based on this marginal expansion in capacity we are in the process of applying for grant funds from the Department of Commerce, U.S. EDA to construct a small industrial park for light industry and telecommunications and data based firms. Such programs are critical to communities such as ours. The potential to compete for business expansions with other rural areas is only possible with this type of Federal Assistance. Though we will be assuming debt on our part to fund this project, the Authority has recognized that without taking some risk, the future will pass us by and the further decline of our citizen's chance for a better life will move beyond our ability to reverse this trend.

We believe that future legislation to build rural communities so that they become successfully contributing economic entities should include a per capita income formula to qualify them for Federal assistance as well as or instead of unemployment. In many rural communities agricultural employment for subsistence wages exists but would not meet an objective criteria to be called true gainful employment. In some cases this labor is only for subsistence or non monetary reimbursement. Individual opportunity is not enhanced by this type of work nor is the economic growth of our Country expanded.

As this non employment has the tendency to mask unemployment, we would also suggest legislation include a provision that would allow the Federally assisted community to demonstrate its true unemployment rate by certified analysis and

survey by recognized and approved institutions. Rural communities by their very nature defy accurate statistical accumulation without the exertion of extra methods of data collection.

Future legislation, from our vantage, may benefit also from flexibility in designating appropriate administrative entities. Some municipalities and counties may be more administratively adept than others. For those without administrators able to allow sufficient resources to meet reporting needs, funds may be better handled by the several State administrations.

Finally, from our view, the best jobs programs are those that rebuild important public structures, meet specific development needs within a community by eliminating infrastructure bottlenecks, and put our citizens back to work through private contractors during construction and allow for employment after the work of building is completed by freeing private initiative. Employment per cost calculations that we have seen do not factor increased commerce, resulting secondary employment, and savings by reducing the welfare roles. When all these are factored in, we believe that jobs programs are an excellent investment in communities unable to spare the expense themselves.

As a result Pendleton County is a wonderful community with a great potential to serve the metropolitan commercial centers of America at reduced operational cost to business and with the best workers in the Nation. To have a venue which can support American business so that American firms can be more competitive in the global marketplace is to have a location in which it is well worth investing infrastructure capital. Pendleton and other rural communities are hidden opportunities for our Nation; opportunities that will return revenues on investment and renewed futures for our citizens.

Thank You.

INVESTING IN AMERICA'S INFRASTRUCTURE: SHORT- AND LONG-TERM STRATEGIES

TUESDAY, FEBRUARY 2, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT,
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
Washington, DC.

The subcommittee met, pursuant to call, at 2:05 p.m., in room 2167, Rayburn House Office Building, Hon. Robert E. Wise, Jr. (chairman of the subcommittee) presiding.

Mr. WISE. This hearing of the Economic Development Subcommittee will come to order, and to show the desire to move ahead quickly on an economic stimulus package, I am submitting my statement for the record and will waive any opening remarks. I would ask members of the subcommittee to assist in that we have several of our Governors on a very tight schedule. They have been here several days, and we are very fortunate to have them with us. I had the chance, the privilege of meeting many of our witnesses just a couple minutes ago with Ms. Molinari, and I just want to thank you again for being here. I think the message you bring is very important.

This subcommittee is working to draft and working to put together the case for an economic stimulus package, a short-term package that would pass quickly, and your being here makes a lot of difference. Having said that, I want to express my appreciation and turn to Ms. Molinari for any opening remarks she might wish to make.

[Mr. Wise's prepared statement follows:]

STATEMENT OF THE HONORABLE BOB WISE
CHAIRMAN, SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
SECOND DAY OF A SERIES OF HEARINGS ON INVESTING IN AMERICA'S INFRASTRUCTURE: SHORT AND LONG-TERM STRATEGIES

FEBRUARY 2, 1993

The Committee today is holding the second in a series of hearings on the subject of investing in America's infrastructure: short and long-term strategies. The issues we are discussing address the role of the Congress and the Public Works and Transportation Committee with regard to our present and future economy, the budget deficit, and the condition of the Nation's infrastructure.

It would seem that we are now dealing with a different kind of an economy from what we have been used to for years. Although we saw a 3.8 percent growth rate in the Gross Domestic Product (GDP) in the last quarter of 1992 – the best in four years – there is considerable doubt whether that rate can be sustained. Federal Reserve Chairman Alan Greenspan was quoted as saying, "We're not out of the woods yet." Moreover, this recovery from the recession of 1990/1991 is very weak compared to the strong gains following previous recessions. It is too weak to generate the number of jobs needed by millions of Americans who must and want to work. In addition, more jobs are being lost as many large firms downsize and restructure to be more cost effective and competitive.

Unemployment figures for January, due out in a few days, are not expected to show a significant drop from the 7.3 percent of last month. In fact, Labor Department figures show that the number of first-time applications for unemployment insurance increased in mid-January for the third straight week.

At our first day of hearings on January 15, the Subcommittee heard from prominent economists, from Government officials and from representatives of the business community. The current state of our economy was described as mid-level stagnation and the forecast was for continued slow growth and high unemployment.

Recommendations for an economic stimulus were made that included multi-year spending of anywhere from $20 billion to $50 billion for physical infrastructure. In addition, there were proposals for investment tax and jobs credit, for budgetary changes, and for expanded investment in communities, in human capital and in technology that would provide both short-term and long-term benefits.

One economist pointed out that the GDP is currently running some $400 billion a year below normal and that we are losing about $100 billion a year of gross private domestic investment and billions more in public investment as States and localities curtail even necessary services. Another talked about weighing the risks and said that the risks of not administering an economic stimulus are much greater than any threat of overstimulation.

In response to concerns about the budget deficit, it was suggested that any increase in the short run could be kept within reasonable bounds at the same time that a long-range plan for reducing the deficit is adopted. Moreover, the point was made that stimulating economic growth is one of the best ways to reduce the budget deficit.

In discussing both short-term and long-term needs, witnesses cited unemployment and inadequate infrastructure as major problems facing large and small cities and rural areas. Mayor Raymond Flynn of Boston submitted a copy of a

report called "Boston: Ready to Go" which is a continuation of the work done last year by the U. S. Mayors Conference of more than 7,000 "Ready To Go" Projects in 504 cities that could put people to work quickly as well as provide a long-term plan for investing in economic development, the environment and transportation strategies that would bring people to jobs and jobs to people.

In the view of Members of this Committee, infrastructure is at the very heart of our economic system. Without adequate public facilities, we are going nowhere, literally and figuratively. Our public works needs are many and new investment is essential.

As we consider various policies and investment packages we should not be thinking in terms of quick-fix or either/or proposals. It is increasingly clear that we must take broad steps now to strengthen the economy and adopt measures that will enable us over the long run to meet our domestic needs and compete in the world economies now and in the 21st century.

The President's economic package is expected to be presented to the Congress on February 17. We look forward to hearing his proposals. In the meantime, we will continue these hearings and discuss available options with as many people as possible.

Today, we will hear from State Governors about the particular problems they are confronting and their suggestions for Federal action to help mitigate the economic problems we face. Tomorrow we will receive testimony from Members of Congress who will present their views and suggestions for possible legislation to improve the economy and job growth.

Ms. MOLINARI. Thank you, Mr. Chairman. I also will waive my opening statement except to also welcome the Governors. Clearly this is a new time where we are all trying to engage in a much more stringent and nonpartisan partnership to get this country back on track. Your participation here today, serves as a very important symbol towards that end. We are extremely grateful you could fit us in your schedule. Your remarks and your States' commitment to an infrastructure plan are essential for our efforts to move this through Congress.

With that, I again would like to thank you. I have a prepared statement to offer for the Record. The majority of the members on our side have agreed to also waive their opening statements and submit their statements for the record in deference to the Governors' schedules. However, before closing, I would like to ask our Ranking Member of the full committee, Congressman Bud Shuster from Pennsylvania, if he would like to say a few words.

Mr. SHUSTER. I am here to listen, thank you.

Mr. WISE. As are we all. I ask unanimous consent that my prepared statement and statements Members have be included in the record. Thank you. Hearing no objection, we will proceed.

[Statements received for the record follow:]

STATEMENT
OF
CONGRESSWOMAN SUSAN MOLINARI
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
TUESDAY, FEBRUARY 2, 1993

I know you all have busy schedules this week and I appreciate your taking the time to join us this afternoon to discuss the issue of investing in America's infrastructure. As you may know, two weeks ago we heard from local officials, economists, and business representatives on this same matter. I look forward to hearing both your assessment of the economy and your ideas on how the Federal government should proceed.

We have heard from various Cabinet members and other Administration representatives that some sort of stimulus package is likely. Labor Secretary Robert Reich said there probably will be a stimulus package of $15 to $20 billion and that a third of it may be for infrastructure. According to today's Washington Post, in his meeting with the governors yesterday, President Clinton said that his stimulus package will reach $30 billion and that half will be direct government spending.

Yet, others, such as Robert Reischer, Director of the Congressional Budget Office, have said that the economy has entered a period of self-sustaining growth and that further stimulus may not be necessary. Mr.

Reischer told the Senate Budget Committee, and I quote: "the strongest case that can be made for a short-run fiscal stimulus might be the sugar coating that is applied to a bitter pill...it might be the price one had to pay to get political acceptance of a major long-run deficit reduction package." Today's announcement by the Commerce Department that the Index of Leading Indicators posted its third consecutive monthly gain provides us with yet another sign that the economy will continue to expand this year without a stimulus package.

Given the mixed signals we continue to receive, many Members of this committee have questions that I hope the governors here today will help us answer. Questions as to how soon the funds can truly get on line, and whether we can employ the unemployed or simply continue to employ current workers. I believe the productivity of our nation is linked to the condition of our infrastructure and I do not want to see an increase in Federal spending replace state and local funds and leave us with no net gain.

We will not hear the final word on this until President Clinton addresses a joint session of Congress on February 17. Nevertheless, this hearing today is important, because we all agree that regardless if there is

or is not a short-run stimulus package, we need to address infrastructure in the long-run. We learned last year that the best way to do this is to work closely with state and local governments. That is the way we developed ISTEA, and it is the way we must work to address all our infrastructure needs.

STATEMENT OF HON. JERRY F. COSTELLO

MR. CHAIRMAN, I want to thank you for calling today's hearing. This is the second in a series of hearings on Investi. in America's Infrastructure: Short and Long-Term Strategies. Today we will hear from many distinguished governors who represent states from all across our nation. I welcome you here today and look forward to hearing your testimony.

I would also like to extend a special welcome to Jim Edgar, the Governor of my home state, Illinois. I am pleased to have the opportunity to hear you testify.

I strongly believe that a significant stimulus is needed to rejuvenate the economy in our nation, and especially in Illinois. Despite recent emphasis on deficit reduction, an economic stimulus is needed in order to achieve the goal of reducing our nation's deficit. In fact, Congressional Budget Office data shows that if economic growth is increased by only one percent, the deficit could be reduced by 45% from FY 93 to FY 96 without cutting spending or increasing taxes..

In addition, our nation's infrastructure needs immediate attention. When infrastructure is inefficient, the economy is less productive and our nation is less competitive. Therefore, I see this economic stimulus package benefiting our country in a number of ways. The unemployed can be put back to work, the economy can grow and our nation's infrastructure will receive critical improvements.

I look forward to discussing ways to bring jobs and prosperity back to our country through infrastructure investment. Thank you, Mr. Chairman.

STATEMENT BY CONGRESSMAN JERROLD L. NADLER
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
HEARING: "INVESTING IN AMERICA'S INFRASTRUCTURE: SHORT AND LONG TERM STRATEGIES"
FEBRUARY 2, 1993

Mr. Chairman: I want to commend you for holding these hearings on our nation's infrastructure and in particular for focusing on both short and long term strategies. Too often, we are told that the economic problems we are confronting are merely cyclical and require little more than a small adjustment, a short-term stimulus to get things moving again.

There can be no doubt that we need to take decisive action in the short-term. Full funding of ISTEA will be an important first step to get the economy moving. But with the many problems we face, and with job growth still at a near stand-still, the Federal goverment must act decisively to get America moving again. An infusion of $50 to $60 billion would, in my view, be a reasonable and effective means to achieving this goal.

For the long-term, we must begin to deal with the tremendous backlog of public works projects. If the United States is to be a competitor in the global market of the 21st Century, we must rebuild and modernize our entire intermodal transportation

system: our port facilities; our roads and bridges; and our rail lines. We must finish the work of the Clean Water Act by building the facilities necessary to clean up our waterways. We must invest in our communities with education and training.

These investments will not just put people to work in the short-term. They will enable American business to be more productive and more competitive. Our trading partners have been doing this for years. We have no choice but to catch up.

I hope, Mr. Chairman, that as we move forward with these multi-billion dollar initiatives we will pay close attention to how these funds will be spent. I hope that we will have the opportunity to consider mechanisms by which public infrastructure expenditures can be assessed and their economic impacts relative to their costs, measured. Infrastructure spending can help our economy if we do it wisely.

As a former member of the New York State Assembly, I am particularly pleased to welcome the distinguished panel of Governors today. I have a great appreciation for the challenges they face. I look forward to working with them, and the members of this Committee, to get America back to work and moving again.

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Mr. WISE. We are fortunate to have with us five distinguished Governors, and what I would like to do is introduce them and then ask them to begin speaking in the order that you are listed. Let me just check with you to make sure that order works as far as your schedules. I have Governor Sullivan, Governor Edgar to be introduced by Congressman Ewing; Governor Sundlun, Governor Miller, and Governor Nelson; is that appropriate?

At this point, Governor Sullivan is the Governor of Wyoming, and I have had the chance to visit with him before several times. We are very fortunate to have him here. Governor Edgar, the Governor of Illinois; the Honorable Bruce Sundlun, the Governor of Rhode Island; the Honorable Bob Miller, the Governor of Nevada; and the Honorable Benjamin Nelson, the Governor of Nebraska. Let me just say I know one of you is one of the veterans of running with the President this morning. Governor Caperton from West Virginia was also in that group. He has only been training for this event, I think, for six or seven years. I just want it on record I keep the New Balance shoes by my bedside waiting for the call every night. It has not come yet. Congratulations, Governors.

At this point Governor Sullivan.

TESTIMONY OF HON. MICHAEL SULLIVAN, GOVERNOR OF WYOMING; HON. JIM EDGAR, GOVERNOR OF ILLINOIS; HON. BRUCE SUNDLUN, GOVERNOR OF RHODE ISLAND; HON. BOB MILLER, GOVERNOR OF NEVADA; AND HON. E. BENJAMIN NELSON, GOVERNOR OF NEBRASKA

Governor SULLIVAN. Thank you very much, Mr. Chairman, Ms. Molinari, members of the subcommittee. I am pleased to join my colleagues here today to discuss the critical importance of strategic investment in America's vital infrastructure. We know that to some extent we are preaching to the choir this afternoon with regard to this committee, but want to take this opportunity to talk with you about a subject that we deem important and we know you do as well.

Mr. Chairman, we would like to submit our National Governors' Association statement for the record and then each of us will cover specific program features. Let me say by way of background, this is sufficiently new, that there is a note at the bottom of one of the pages that this proposal has not been formally adopted by the National Governors Association. It was adopted within the last few hours at our plenary session, so please disregard that notation.

Mr. WISE. Excellent. That will be made part of the committee record.

Governor SULLIVAN. Mr. Chairman, I am sure you are all well aware that substantial evidence suggests that declining public and private investment over the past 20 years is at least partially responsible for the slowdown in American productivity. The U.S. is now last among the 24-member nations of the Organization for Economic Cooperation and Development in investment as a percentage of Gross National Product.

At the Governors' winter meeting, which as I said, we have just concluded, the National Governors' Association agreed upon the initial down payment on an infrastructure investment package. It is consistent with the proposal attached to this statement, which in-

cludes a call for $9 billion to $10 billion in additional infrastructure investment this year.

The basic elements of the proposal involve additional funding for State programs with projects that are ready to go within the next 60 to 90 days, so that jobs will be created immediately, a concern of ours, as I expect, and anticipate a concern of yours as well.

Our infrastructure package is a long-term proposal to increase public investment and economic productivity. While our intent is not strictly to stimulate short-term growth, infrastructure investment, we believe, can be a highly-effective short-term stimulus as well as have long-term lasting impacts. Our programs include clean water, surface transportation, and community development block grants.

I will start with the clean water infrastructure component of our proposal. Inasmuch as I need to leave to catch a plane, I will conclude my statement and then excuse myself. My legislature is in session, and I need to get back, try to protect my citizens, Mr. Chairman. Other governors will discuss funding of the Intermodal Surface Transportation Efficiency Act and Community Development Block Grant programs.

I am very pleased to have this opportunity to discuss the critical need for investment in the Nation's clean water infrastructure and to advocate inclusion of water infrastructure funding in any economic stimulus package. No one doubts that the cost of clean water in the 1990s will be high. A 1990 EPA Needs Assessment estimated that infrastructure necessary to meet the goals of the Clean Water Act will cost $110.6 billion through the year 2010. A 1990 General Accounting Office study projected costs over the same period in excess of $140 billion. We had remarks before my committee of NGA, on Sunday, that suggested the costs were far higher.

Current funding levels are clearly inadequate in the face of these projected needs. Today the National Governors' Association adopted a policy position recommending $5 billion per year through the year 2000 in Federal capitalization grants to the State revolving loan funds. Note that $5 billion per year was the sum originally authorized and appropriated for wastewater treatment infrastructure under the Clean Water Act of 1972, prior to the introduction of costly new mandates imposed on States by the 1987 Clean Water Act amendments.

Considering the effects of inflation, the annual Federal commitment has been reduced by well over half in the last 20 years. At the same time, the program, as with everything else, is much more expensive than it was 20 years ago.

In Wyoming, where I am personally familiar with the costs and the demands of these programs, we met our needs for construction of wastewater treatment facilities to meet secondary treatment standards and problems several years ago, but we began the untenable task of addressing problems associated with our nonpoint source program.

These demands and needs exceed many times the available amount of the State revolving funds which the State anticipates receiving through the year 1994. I think currently our projections are $250 million in demands, and we are a very small State, with comparatively very small needs.

We are also now seeing a renewed interest in State revolving fund loans by a number of communities to meet additional toxicity standards or for upgrades of facilities built in the 1970s. I want to emphasize that the nation's Governors support, the continued use of State revolving loan funds as the primary source of wastewater infrastructure financing.

The National Governors' Association opposes financing through direct Federal construction grants. The State revolving fund program is an excellent example of efficient government investment. Those funds allow States flexibility to target priority needs and provide incentives to local governments to reduce costs and develop appropriate user fee systems. Revolving at the State level, State revolving funds have a multiplier effect that can leverage two to five times the original investment through bond issuance and loan repayment, and matching programs on a local basis.

In contrast, direct Federal grants discourage local initiative and in part could serve to reward noncompliance. Wastewater infrastructure financing is both an excellent short-term economic stimulus and a vital investment in the long-term strength of our economy. Wastewater treatment construction is labor intensive and creates more than 60,000 jobs per billion dollars spent.

The States' revolving funds could quickly allocate new funds provided for economic stimulus, a concern we share with you. The Association of State and Interstate Water Pollution Control Administrators has documented more than $10 billion in wastewater treatment projects ready to move immediately to construction.

A waiver of the 20 percent State match requirement for any supplemental appropriation would ensure immediate investment, our policy statement calls for projects which are already designed and ready to go and identified as priority projects—all of which we think is important for the immediate stimulus. More importantly over the long term, economists note a strong correlation between investment in public infrastructure and private-sector productivity. Wastewater infrastructure investment raises the rate of return on private investment and acts as an impetus to private investment.

At our Natural Resources Committee meeting, the governors heard of concerns in the business community that the rising clean water costs borne by ratepayers, due to insufficient public investment, are a significant drag on economic development in many parts of the country, and without some relief could continue to be a significant drag on private investment.

Finally, in addition to our economic considerations today, I stress that the environmental consequences of inferior investment in water infrastructure are and will continue to be severe. Not only will progress toward meeting the goals of the Clean Water Act stop short, but we could even witness degradation in what we have achieved thus far, and we still have a long, long way to go.

Serious water quality problems remain. Thirty-eight percent of stream miles fall short of Clean Water Act standards. Coastal and marine waters are severely degraded in many areas and almost half of our lakes are impaired or threatened.

Maintaining and expanding our water infrastructure to protect our environment and our economy should be a priority over the next decade, and we are here today because we share with you a

concern for that priority. America surely cannot afford to lose its water resources. A substantial Federal investment through the State revolving loan funds is, in our view, the best way to make sure that we don't lose that investment and that we don't slip back in that very important area.

Mr. Chairman, Members of the subcommittee, thank you for the opportunity to testify before you today. Thank you for your consideration of these recommendations.

I am happy to respond to any questions at this time, if it is convenient.

As I said, I leave shortly for the airport. In view of the same problem which some of my colleagues may have, I don't want to take up a great deal of time, but we appreciate the opportunity to be here and share in your interest.

Mr. WISE. Governor, the subcommittee thanks you very much for your presentation, particularly relating to the area of water and sewer construction, which I think is one of the natural areas for any short-term package, and we appreciate the information you made available to us.

I want you—we are going to let you go because we have such interest on this subcommittee, you will never get out of here.

I want you to know there are a lot of us who think a legislature in session without a chief executive sometimes is a good idea.

Governor SULLIVAN. Mr. Chairman, I understood when I made that comment that it might not get unanimous approval in this body, but I hope you understand that I am interested in returning. We have a short legislative session, and——

Mr. WISE. We will see how short this one is going to be.

Governor SULLIVAN. Thank you very much.

Mr. WISE. I turn to the gentleman from Illinois for the purpose of the introduction of our next witness.

Mr. EWING. Thank you, Mr. Chairman.

Welcome to all of the governors. I have the distinct honor of having the Governor from my State here today and the privilege of introducing him. I might say that Governor Edgar is the Republican part of this bipartisan panel, and so we must listen very closely to him.

Governor Edgar and I served in the legislature together in the Illinois House of Representatives for several terms, and have been longtime friends and colleagues. Governor Edgar is in his first term as Governor of Illinois, and in the first two years in office he has made high marks for doing a great job of bringing Illinois government expenditures in line with our State's income.

I think he immediately recognized that Illinois had not a taxing problem, but a spending problem. He is a strong supporter of education and has also wisely pursued plans to revitalize the Illinois economy, and one of the main points in his revitalization plan is a sound transportation infrastructure.

Governor Edgar, welcome.

Governor EDGAR. Thank you, Representative Ewing.

Mr. Chairman, members of the subcommittee, I am delighted to be here as the Governor of the State of Illinois, but perhaps more importantly as the Chairman of the National Governors' Association Committee on Economic Development and Commerce.

I am pleased to appear before you today to discuss the critical link between a sound transportation infrastructure and a healthy economy, and especially to the need for full funding of the Intermodal Surface Transportation Efficiency Act, better known as ISTEA.

My fellow governors and I are committed to working with Congress and the new President to create an infrastructure improvement program that will also provide further economic stimulus to our economy.

Toward that end, we have developed a proposal that the NGA adopted today. It is called PARR, Preventative Action to Repair and Restore. The PARR program reflects the essential linkage between a sound transportation infrastructure and a healthy economy.

Equally important, the program can be implemented immediately to create jobs without requiring additional taxes. As Governor Miller will address in more detail, full funding of ISTEA is of fundamental importance to the States, and it is the premise on which PARR is based. PARR would use the approximately $3 billion increase in obligation authority for fiscal year 1993 that full funding of ISTEA would produce. This equals the shortfall between the level of ISTEA authorization for major highway programs subject to obligation limitations and the limits set by Congress in appropriations.

This money has been sitting in the Highway Trust Fund unused when it could be used to create new jobs nationwide; 63,000 new jobs in the construction industry and another 63,000 jobs in related sectors of the economy through the ripple effect. It can set economic development efforts in motion that can actually reduce the Federal deficit.

The economic boost to the economy resulting from the creation of these jobs would reduce the Nation's deficit by $4 billion, a revenue-positive result. This proposal included in the NGA resolution calls on the U.S. Department of Transportation to enhance eligibility for simple preservation projects, to streamline project development processes, and to consider even more relaxed non-Federal match requirements.

These measures would expedite ready-to-go projects throughout the Nation. In Illinois alone, the Department of Transportation has identified over $328 million in ready-to-go projects, and nationwide the number is over $6.5 billion.

In terms of enhanced eligibility, we ask that FHWA permit simple, single-layer resurfacing projects on the Nation's highway system without bringing the other geometric figures up to design standards when high accident locations are not involved.

Second, we ask that the Department of Transportation and Federal natural resource agencies, such as the Environmental Protection Agency (EPA), develop interagency agreements with transportation departments on a self-certification process for projects not requiring an environmental impact statement. This would relieve all agencies of burdensome reviews of simple routine projects and free up staff for those projects with significant impacts on our environment.

Finally, some States have needed to use deferred match provisions of the ISTEA even to make use of the existing level of the Federal highway funding for fiscal year 1993. A $3 billion increase in obligation authority as called for by the NGA and virtually all other national organizations with interest in transportation may necessitate a further relaxation of non-Federal match requirements.

Congress should give consideration to making the existing deferral provisions less burdensome by allowing payback of funds over time through overmatching on future projects. The need for both a sound infrastructure and a healthy economy is of critical importance to all of us here today.

Full funding of ISTEA is a simple way to improve the transportation infrastructure. By implementing the PARR provision I outlined, States would be able to get needed projects under construction quickly, getting dollars into the economy and people back to work without raising taxes.

Again, I want to thank you very much for this opportunity to testify before the subcommittee and look forward to any questions you might have.

Mr. WISE. I would ask that we hold questions until all witnesses have presented. Thank you.

Governor, we thank you very much, and particularly for that relevant statement on ISTEA, which I think is a major component of any legislation of this nature.

Mr. WISE. We now recognize the Governor, and we are proud to have with us from Rhode Island, Governor Bruce Sundlun.

Governor.

Governor SUNDLUN. Thank you, Mr. Chairman, Ms. Molinari, ladies and gentlemen of the committee.

A little over two years ago I took office to find a State that was laid low by a regional recession and a local depression. As if that wasn't bad enough, the situation was further complicated by extensive defense industry layoffs which forced our largest employer, Electric Boat, manufacturer of the Trident submarine, to cut out thousands of workers, and as a result of that, Rhode Island's unemployment rate went well over 9 percent.

Those hardest hit were in the building trades industry. In fact, in a 2-year period from June 1990 to June 1992, it is estimated that in all of New England we lost about 30 percent of our construction jobs.

All of that took place right smack in the center of a credit union crisis which occurred when on inauguration day I had to close 45 banks because a private insurer failed. So that is why I am grateful for the opportunity to appear before you today.

We believe we desperately need your help, and you have within your power to provide flexible funding of infrastructure programs which can be of help to the Northeast. I can personally testify to the usefulness of those programs.

In Rhode Island we have been priming the pump for 2 years, and we have created hundreds of jobs and begun to rebuild our battered infrastructure. We are building an airport terminal, a convention center, we are relocating Route 95, and we have put out more road and bridge resurfacing and work than the State has seen in years.

But by putting more money into infrastructure, as you know, you kill two birds with one stone. First it is a short-term shot in the arm for the economy. You create jobs, you inject money into the economy, you put men and women to work; but second, I don't think there is a State in the United States whose infrastructure is not deteriorating or crumbling.

A lot of those projects were built in the days of the WPA, and they are badly in need of repair, so the projects you build and the repairs you make provide better service to the public. However, in any Federal infrastructure program that you come up with, I hope you will ask the Clinton administration to allocate monies to projects that are already through the design stage.

If they are not through the design stage, don't fund them. Projects that are through the design stage need only the allocation of funds and the solicitation of bids, and you can put people to work in 60 to 90 days.

In Rhode Island, we, like Governor Edgar in Illinois, have a list of projects that we could go right to work on under those terms; it totals about $70 million. Rhode Island is smaller than Illinois.

But, for instance, our largest-growing industry is tourism. We have a thing called Narragansett Bay. Narragansett Bay is the core of our tourist industry, but the bay is often the victim of sewage overflow. Federal funds could help us protect that vital asset by constructing combined sewage overflow holding tanks.

Special consideration should be given to funding environmental infrastructure—don't exclude it, please. Programs to fund water system upgrades, meeting safe drinking water and Clean Water Act requirements are critical. Like many older urban areas, particularly in the Northeast, Rhode Island's water system is antiquated.

We found out just how antiquated it was last summer when three cities were forced to resort to bottled water for several months after contaminants were found in the water system. The fault was simply pipes that have been in the ground for more than 100 years and had deteriorated. Some of those pipes were made out of wood.

We, too, could use Federal funds to improve the intermodal transportation system in our State. One of our economic development anchors is a place called Quonset Point. The park is a model of how a fully-intermodal transportation system can be an asset. It has an airport, roadways, a shipping port, a rail system. It is quickly growing into a viable industrial park. But the freight rail system to get the products out of there is only at 50 percent, and Federal dollars would help us bring that rail system up to 100 percent and attract business from the Japanese who want to offload automobiles there.

But perhaps most important, and I have looked to the cities where some of you come from, an infrastructure program could also help us revitalize our inner cities. That is where the social problems are, that is where the economic problems are.

I live in a city/state where the urban centers are in desperate need of rebuilding, and for too many years the Federal Government has ignored our inner cities, economically, spiritually, physically. If we don't rebuild those inner cities and do it rather quickly, in my

opinion, we run the risk of seeing Los Angeles riots being reactivated on the East Coast. That inner-city rebuilding could begin with an increased Federal funding of the Community Development Block Program.

While Rhode Island is a small State, I don't think our inner cities are much different from those in larger cities—New York, Chicago, Detroit, Philadelphia, maybe even Charleston, West Virginia. In 1991 alone, we could have used twice the amount of money that we had available for the construction of affordable housing and community development. Whether you realize it or not, the Northeast is seeing for the first time in years a substantial influx of new immigrants, primarily Hispanics and southeast Asians, and we don't have the facilities to provide them with adequate housing, and with increased funding we could finally target assistance to those neighborhoods that need it most.

We could construct community social and health centers, we could build and revitalize affordable housing, and we could provide companies with incentives to hire low- and moderate-income workers in those neighborhoods.

I think the States are doing all they can to shape their long-term economic futures, but in the short term we need help. We can't wait five or ten years to put our economies back together. We need your help for now, if we are ever going to have a chance at the future.

I thank you for your consideration.

Mr. WISE. Thank you, Governor Sundlun.

I can see as governor you have a way of getting right to the heart of things when you mentioned Charleston, West Virginia; now we are all relating, at least this individual is.

We are pleased to have with us also from the West the Honorable Bob Miller, Governor of Nevada.

Welcome, governor.

Governor MILLER. Mr. Chairman, distinguished Members, may I respectfully request that my prepared remarks be made a part of the record and that I would be permitted to summarize?

Mr. WISE. Without objection.

Governor MILLER. Thank you.

I have the privilege of serving as the lead Governor on Transportation for the National Governors' Association, but I would like to join with my fellow governors in supporting increased funding for the Clean Water and Community Development Block Grant which all of us feel are important ingredients in revitalization of our national economy.

When dealing with the transportation infrastructure, national estimates would indicate that we would currently have to expend $9.5 billion a year more than we are just to maintain the 1989 condition of our roads and highways. To significantly improve their conditions would require more than doubling that investment from about $36 billion to about $75 billion. I could put it in perspective. Although I can't summarize what would occur in West Virginia, I am sure that it would compare to what would occur in Nevada.

In Nevada our 10-year estimate is that the projected income that we can anticipate is about $1.5 billion, but our needs are $3 billion for what we would characterize as essential projects.

To give you an example, if you take a look at the northern part of our State, I would start with resurfacing of Interstate 80, which connects California with Utah as the primary corridor between northern California and Utah and all States to the East.

In the South it is essential that we build a bridge over the Colorado River, which would take traffic off of Hoover Dam, which is a primary corridor between Arizona and southern Nevada. We also must widen I–15, a very heavily-trafficked corridor between the southern California area and Las Vegas, expand both of our major airports, upgrade our rail yards, and at least a half dozen major interchanges in the Las Vegas area, which is one of the fastest-growing areas in the country.

What does that add up to? It goes from millions, to tens of millions, to hundreds of millions, to billions in a State with a population of one-and-one-quarter million. None of what I have listed is frivolous or could be characterized as pork—these are truly essential projects.

If I went beyond them, the absolutely essential, and mentioned just the merely important, I could cover such ideas as a high-speed rail train between California and Nevada—of sufficient interest that we have had a bistate commission with California for many years exploring that possibility—and a Mag-Lev people mover in the southern Nevada area, which has been discussed extensively by our county and by our State.

The increasing infrastructure spending, I believe, both in the long term and the short term, will provide a significant economic stimulus to our State and to our country. It has been estimated that a dollar spent on this in public infrastructure generates two to five times as much leverage on the GNP, as does an additional dollar of private investment. So a billion dollars spent on transportation infrastructure generally creates as many as 60,000 jobs, half within the construction industry, and half within the broader economy.

There is, as you well know, an effective means of delivering transportation infrastructure financing already in place because you were instrumental in it, and that is ISTEA or the Intermodal Surface Transportation Efficiency Act. It passed without a lot of fanfare in 1991, but what you might know, but others don't, is that it has not been fully funded. The shortfall for this year alone being over $4 billion.

In fact, some States are receiving less money this year than they have in previous years. There is no position in the National Governors' Association which has as much support as does the proposition of full funding of ISTEA. I proposed a resolution to our economic development committee; it was passed, and Governor Edgar presented it to the Floor today, and it was unanimously approved.

Of course, the immediate question is can the States put to good use some short-term funding and can that be put in expeditiously. The answers are yes and yes.

Mr. Chairman, I would present to you a copy of a report completed last Friday, and we will try to get a copy for each of the Members as soon as possible. This is by the American Association of State Highway and Transportation Officials. It was expedited at my request based upon a request for Secretary of Transportation

Pena to evaluate what the abilities of the States are to put money into the transportation infrastructure in a 30- to 90-day time frame and within this fiscal year.

The answers are $6.5 billion within 30 to 90 days, and $8.5 billion that could be infused within this year.

Governor Edgar has already mentioned that one of the things that all of the governors feel would be important in accomplishing these goals would be to provide as much flexibility as possible so that it would go into projects that are, in fact, ready to proceed. The unanimity of the 50 governors is evidenced not only this year by the resolution, but last year by a letter signed by 50 governors, including then Governor of Arkansas now President of the United States, Bill Clinton.

It is important to stress that this consensus is also backed by commitment. States and local governments provide about 70 percent of the funding for highways in the country, and that share has been rising steadily in recent years.

To give you an example of the commitment in my own State, at the last legislative session, our legislature raised the State's gasoline tax by a full five cents. Voters in the Las Vegas area and surrounding communities, Clark County, voted overwhelmingly for paying $100 million in each of the 10 years to fund transportation projects; no insignificant vote of the public.

So what does that add up to? It adds up to the fact that we have the need. The benefits in the near term are substantial; the long-term costs of not acting are more substantial in reverse. The commitment is strong, and the delivery mechanism is available.

So I urge you to act as you have in the past and do it as expeditiously as possible to instill these monies into the infrastructure that will help our country thrive from both perspectives—additional transportation and also additional job creation.

Thank you.

Mr. WISE. Thank you very much, Governor Miller.

Our final panelist is Governor Benjamin Nelson.

Governor, I note that you are no stranger to long-mileage highways, either. In West Virginia they say if we squash West Virginia out, that we will have as much land area as Texas, Nebraska and Nevada all combined.

But at any rate we are delighted to have you with us and look forward to your testimony.

Governor NELSON. Thank you, Mr. Chairman, Ms. Molinari, and Members of the subcommittee.

Thank you for the opportunity to appear here today to discuss the infrastructure needs of Nebraska and the United States.

I want to highlight for you some of the unique aspects of infrastructure issues in large geographic but sparsely populated States like Nebraska. Yes, Mr. Chairman, we would like to have some of those mountains.

In particular, I would like to focus on the long-term benefits of basic infrastructure investments as well as the mounting backlog of fundamental infrastructure needs in my State. Over one and a half million people live in Nebraska, and about half of them are located in Omaha and in Lincoln, in the eastern one-third of the State. There are 535 communities in Nebraska, spread across more

than 77,000 square miles. Ninety percent of our people live in communities with less than 2,500 people. In this context, Nebraskans have a deep appreciation for the value of infrastructure to our quality of life. Without it, there is none.

Our highway system is essential for getting our crops to market, our manufactured goods into interstate transportation, and our people from one community to another hundreds of miles apart. Our mass transit system, although limited, is an integral part of both our urban centers and our rural communities. Airports, both large and small, add a vital dimension to our overall transportation system.

Community development projects, from streets to sewers, are a key element of our statewide economic development strategy. Wastewater treatment facilities, adequately funded for construction and maintenance, help protect the quality of our environment.

Like other States, Nebraska's infrastructure needs are mounting rapidly, while anticipated Federal funding continues to be withheld. There are any number of planned and approved projects awaiting the resources for implementation.

Permit me to be specific. Nebraska has $67.2 million of impounded Federal apportionments for highways, money that we could spend tomorrow to accelerate implementation of our roads plan. There are an additional $4.2 million in Federal transit money, money that we could spend tomorrow which is currently being withheld under ISTEA.

Nebraska has a backlog of over $26 million in needed airport improvement projects awaiting Federal funding, money that we could spend tomorrow. Some of these projects date back as far as 1976.

Wastewater and sewer needs in the 90 percent of Nebraska communities under 2,500 people amount to nearly $19 million, money that we could spend tomorrow. This figure will continue to grow as stricter environmental regulations are put in place.

Full release of authorized funds, as well as additional investments in infrastructure, will pay big dividends across the country. In the short term, these investments translate into jobs, a spark that can ignite an economy poised for recovery. Programs are in place to make these investments without new bureaucracies.

We ask that you use programs like ISTEA, CDBG, and the Clean Water Act as the mechanisms to fund infrastructure improvements. We also ask that you rely heavily on formula funding through these programs. The growing number of demonstration projects, while addressing legitimate needs, drain resources from States like Nebraska.

State and local government leaders, governors, mayors, and State legislators are united, all of us, in our support for infrastructure funding through existing programs. The needs are documented, plans are on the books, all that remains are the dollars.

I know that Congress is interested in moving quickly to get an economic stimulus package out to those in the country who are in desperate need of jobs. States, particularly, are in the best position to see that the funds provided are infused into the economy quickly and efficiently. We have the experience and the mechanisms to move the money into projects and programs that mean jobs and a better life for our citizens.

In the long term, improvements in our infrastructure through new construction and maintenance will provide the foundation for sustained economic growth. Infrastructure needs in a sparsely-populated State like Nebraska are unquestionably different from those in larger States, but they are no less important. The strength of our economy and the quality of our environment require good roads, up-to-date treatment facilities, adequate airports, and reliable mass transit networks.

I am compelled to mention one other important matter, and that is the issue of any increase in the Federal gasoline tax with any new energy tax. I believe that the diversion of two-and-a-half cents of the five-cent gasoline tax increase in the Budget Reconciliation Act of 1990 was wrong. That action marked the first time that gas tax revenues were siphoned off for nontransportation purposes, and I believe that is bad public policy.

I hope that any Federal deficit reduction efforts will focus on reductions in spending, without any potential tax increases considered until and unless as a last resort. But if Congress does move ahead with any new energy tax, however broad-based, a significant portion should be dedicated to building and funding infrastructure needs and the two-and-a-half cents should be reclaimed, and if Congress increases the Federal gasoline tax, all of that increase should go to transportation.

Mr. Chairman, I would like to leave with you and the Members of the panel just this simple thought: I don't believe we need any new short-term public works program to stimulate the economy. It is already in place. We already have the programs, we know that they will work, programs that have been proven to be efficient and effective, programs which are based on formulas that are fair to sparsely-populated States and States with low per-capita incomes.

These programs were carefully designed to meet the long-term infrastructure needs of this country. They will result in sound and lasting improvements that will provide the foundation for sustained economic growth and enhance our competitive position with respect to the rest of the world.

Along with my fellow governors, I hope that Congress can move forward quickly to enhance America's investment in its infrastructure. The actions that you and your colleagues take in the next few weeks will lay the groundwork for prosperity into the future.

Again, Mr. Chairman, Members of the committee, I thank you for the opportunity to be here today.

Mr. WISE. I thank you very much, governor, and all the governors who appeared here today.

Let me open up with the basic question: This subcommittee has been looking at investing in America's infrastructure on a short- and a long-term basis, and so in some ways it is a two-part strategy, what is it that can be done quickly in terms of investing in America's infrastructure and getting the money out right away, the projects that are ready to go that many of you referenced in your testimony?

The other part, of course, is a little longer term, what is it, over the next decade, for instance, that needs to be done to boost our productivity, to boost our growth, to improve those charts which

show a flat line for unemployment running around 7 percent, and show an economy that is not really growing as we all want it to.

In both cases, short- and long-term, I think all of us are looking at infrastructure as being an investment that has a long-term pay off, whether you put it under the short-term heading or the long-term heading, but if you would care to address the one concern that gets raised the most, and that is if Congress passes legislation that provides for projects ready to go, that puts money out on the street, if you will, that says projects that are ready to have dirt flying in 90 days are the only ones that will be considered, the argument sometimes is, yes, but that really doesn't do much, that you don't have—the money takes a long time to get out there, you can say 90 days, but the States aren't going to get it out there that fast, that the highway projects aren't going to be under construction that quickly, that you won't be—that it really won't accomplish the purpose, one of the purposes that you set it out to do. Would anyone care to address that?

Governor Edgar.

Governor EDGAR. Well, first of all, I think we do have projects that are ready to go. I mentioned being able to resurface and repair, which we can turn around in a few weeks because we don't have to go through all the preliminary design and preparation.

We all have projects, not only in transportation, but in other areas, and we understand we have got to get this money out, get people on payrolls. That is the real short-term advantage, to get that stimulus that we all agree we need.

We are seeing an improvement in the economy, but we haven't seen that many jobs created. This will help.

Also, particularly when you are dealing with infrastructure, I think it will translate into more economic development. For example, I had a major corporation decide to put a plant in northern Illinois, 2,500 good-paying jobs, basically because we accelerated our plans to build infrastructure, we knew we needed, but moving that schedule up, made that company feel comfortable enough to decide to come to Illinois and create those 2,500 jobs. So I think we can all point to examples where infrastructure improvements have resulted in long-term economic development other than just the jobs that created by the construction.

I might also point out that the short-term projects we are talking about, do have long-term benefit. Just as your own home, if you don't maintain your home, eventually you are going to have to replace it. That is a lot more expensive than taking care of it along the way. That is what we are suggesting with some of these road projects, go in and let's resurface and repair existing roads and bridges. It is going to save us money in the long term, as well as provide jobs in the short term, and provide us with a mechanism to go to business and demonstrate we are improving the infrastructure, to make it easier for them to expand and get products to market.

Mr. WISE. Governor Sundlun.

Governor SUNDLUN. Two points, Mr. Chairman. As I said in my prepared remarks, if you write into the bill that projects have to be through the design phase, normal process of bidding and contracting is 60 to 90 days. It is not very long.

Second, on economic development, you spend money today on the inner cities and some of the projects that we need, you are going to have significant improvement for the populations that are at risk, and in distress in the inner cities. You are going to build housing, you are going to build projects where they can get training and education to work on jobs, and in large measure to get them off the welfare rolls.

It is a significant social improvement, it is an economic development improvement, and it has results that far exceed the money you spend on bricks and mortar.

Mr. WISE. Governor Miller.

Governor MILLER. The report I will provide to you purports to do exactly what you requested, Mr. Chairman, and that is state-by-state, specific to individual projects that outline what could be done within 30 to 90 days, and it was done by the American Association of State Highway and Transportation Officials. Not to disagree with Governor Sundlun, but I would hope that the way it would be viewed for spending these monies would be to give the States as much latitude categorically as possible. If you get into restrictions of design phase or something of that nature, there might be projects that could be in this list, otherwise they could actually be dealt with in a shorter time frame.

I know in our own State, for example, our State transportation board addressed a pedestrian overwalk at one of our major intersections last week, in the hopes that there would be additional funding available and might be limited if it were in that category, but if it were in discretionary funding, obviously, something we could address.

Mr. WISE. Governor Nelson.

Governor NELSON. Yes, my director of roads is here.

When I looked back to see if we had 30- to 90-day projects, his head is enthusiastically. We identified specific detail, included in this material, on ready-to-go projects.

What I want to leave you with is the idea that we don't need to go out and create new programs. The programs are already in place, ISTEA, the other programs we have mentioned, to be able to deliver this, and we have focused on immediate now short-term stimulus, but emphasizing long-term benefits as well.

Mr. WISE. Thank you.

I now turn to the Ranking Member of the subcommittee, Ms. Molinari of New York.

Before I do, though, if I could ask the gentleman from Pennsylvania, the Vice Chair of the committee, Mr. Blackwell, if he would take the Chair for about 10 minutes. I will greatly appreciate his assistance.

Governor SUNDLUN. Mr. Chairman, could I be excused?

Mr. WISE. Governor, I have never been able to tell a governor he could not be excused. Certainly.

We thank you very much for being with us today.

Ms. MOLINARI. Thank you, governor. Before I begin my questions, I would initially yield my time to the Ranking Member of the full committee, Bud Shuster.

Mr. SHUSTER. Thank you very much.

We certainly appreciate your testimony today. I can tell you, I am quite heartened to hear that you consider full funding of ISTEA the number one priority, and perhaps I am reading between the lines, but I trust you also feel strongly that the two-and-a-half cents that we diverted from the trust fund for supposedly deficit reduction should be reapplied to transportation. Is that——

Governor MILLER. That would not be unanimous. It is a previously-stated long-standing policy, but I would have to suggest that after some discussions we had this morning, it might not be unanimous. It is definitely a majority consensus.

Mr. SHUSTER. Thank you very much.

Ms. MOLINARI. Thank you.

I have just a few quick questions. One of the major concerns that we have and one that we will need your help with, is how do we ensure that we are not supplanting state funding for projects that are on the shelf. Understanding the economics constraints of your states, this is an essential point that Members of Congress must address before supporting any economic stimulus plan. How do we ensure that we are actually doubling our resources for infrastructure investment?

How do you each suggest we go about guaranteeing our constituents that we are not just taking your money off line to redistribute it to the State, as wonderful an idea as that is, but in fact that we are just doubling our efforts towards an economic stimulus and immediate jobs.

Governor EDGAR. Well, in the area of transportation in our State, we have already designated the programs we are going to do this year and next year. We have a timetable, and it would be very obvious if all of a sudden we took the money and shifted it. I think what you would see from the States—I know you would see in Illinois—is an accelerated timetable. Instead of projects we are looking at two or three years down the road, we would move those ahead immediately.

Governor MILLER. I would give you the same response from Nevada, and that is we took in front of our last transportation board meeting an additional project in the hopes that there would be additional funding. Our legislature passed the gas tax last time. Clark County passed a 10-year plan of additional funding which has already been outlined. What we would be doing in effect, Congresswoman, is extending down the list of things that we otherwise would take many more years to get to, and accelerating them, which is I assume what you would desire.

Ms. MOLINARI. Yes. So those projects that are in the AASHTO survey have already been identified and would be lower on your State's list of priority projects?

Governor MILLER. I can't speak for every State. I can ask staff if that was one of the questions asked, but I doubt it. I think that in most States that would be the character. It was, if you had the money now, how would you spend it, although these projects are definitely ready to go within 30 to 90 days. That was the first criteria. I don't know that we have limited it by suggesting where they were on the priority list.

Ms. MOLINARI. I appreciate that. Obviously that is something in a State-by-State analysis we are going to have to come back to with the rest of the governors.

There was a proposal that was brought forth in our first hearing to expand the definition of infrastructure. Infrastructure encompasses more than just roads and transportation facilities. When we speak of infrastructure we include waste water treatment facilities, Combined Sewer Overflows, and communications hardware. The proposal called for the expansion of the definition to include public hospitals, schools, and other public buildings. Did the governors take this matter up at your winter meeting, or do any of you have any thoughts on the idea?

Governor EDGAR. We did not take that up. I think our point is that we have programs in place right now that will allow investment to be increased quickly that will help also in the long term. If you are looking long term, I think it might be worthwhile to look at that and also take into consideration those projects that particularly would have spin-off economic benefits, and eliminating some of the hoops we have to go through before we can start those projects. But I think we were looking particularly short-term based upon what we had heard from Congress and the White House. We want to do something, but we want to do it in a few weeks, not in a few months. And these projects we concentrated on at the NGA meeting were those that we could turn around in a few weeks.

Ms. MOLINARI. Could I ask you, was this proposal adopted unanimously, the proposal that was adopted this morning?

Governor EDGAR. Yes. Are you talking about——

Ms. MOLINARI. The infrastructure investment for the 1990s?

Governor EDGAR. It was adopted—actually, two parts were adopted yesterday and were unanimous, and I believe this morning the part that Governor Sullivan talked about was unanimous as well.

Ms. MOLINARI. My last question is, I believe you all met with the President and our new Transportation Secretary. We are still awaiting, as I suppose the rest of the Nation is, some indication as to what direction their short-term economic stimulus package may be going.

Without putting you on the spot, can you share with us any information that you may have cultivated as a result of these discussions?

Governor EDGAR. You jogged with him this morning.

Governor MILLER. No, not this morning.

Ms. MOLINARI. Yes, who is the jogger in the group?

Governor MILLER. I have had a couple of telephonic meetings with the Secretary, and he addressed our group this morning, as did the President, and I will meet with the Secretary tomorrow. This report was accelerated at his request to answer the specific question that you are asking today. But independent of that, most of the dialogue we have had with the administration is relative to outlining what we think would be the best proposals. That was certainly the course of the conversation with the President yesterday, outlining the same thing we have said to you today. He certainly listened intently.

The Secretary said today that it was his opinion that full funding of ISTEA was a priority, but that he wasn't speaking for the President as of yet in that regard. And, essentially, that is it. I can speculate, but I don't know that would be productive. You will have the opportunity to receive that.

Certainly there was nothing that we brought up in the way of these proposals that was rejected in any time frame.

Governor EDGAR. We had the chief economist from OMB at the committee meeting Sunday, and without saying it definitely, he implied very strongly that they are looking at a stimulus package, but they are looking particularly at those areas that we can quickly get moving and see results as far as people being employed.

So I think from what the President said yesterday and from what they have told us in committee, we believe what we have presented today is right on target with what they are considering.

Governor NELSON. There would be nothing inconsistent in anything that we are asking for here, in anything that we have heard.

Ms. MOLINARI. We appreciate that. Thank you all for participating. As I stated in my introduction, we believe that it is extremely important that we involve the governors in this planning process. As I think Governor Edgar indicated, perhaps we can use this as an opportunity to streamline all our development procedures, not only relative to an economic stimulus package, but to increase productivity in our Nation throughout the next decade. By working together we can make sure we don't relive some of the sins of the past relative to construction, both on a municipal and State level.

So I look forward to working with you all on those opportunities. Thank you.

Mr. BLACKWELL [presiding]. The Chair thanks the gentlelady.

Chairman Mineta.

The CHAIR. Thank you very much, Mr. Chairman. Let me thank the Governors for their attendance here today and for their fine statements. I apologize for not being here. But just quickly looking at your statement, if you are relying on existing programs to be part of the short-range as well as long-range infrastructure investment, I am wondering to what extent ISTEA doesn't provide the foundation for that long-term infrastructure investment, and what we are hearing is that the States have not really been getting the projects going under ISTEA for a variety of reasons.

One of them may be the inability to come up with the 20 percent local match on some of these programs. So given that, why would you want to just—recognizing we were shortchanged on full funding of ISTEA by $4.2 billion, why would, let's say, the full funding of $4.2 billion for ISTEA give you any better shot at job creation, economic stimulus, if the 20 percent is keeping a lot of States from already utilizing the provisions of ISTEA?

Governor EDGAR. Mr. Chairman, there are some States that is affecting. In the State of Illinois we haven't had a problem with that yet. We could move ahead.

One of the things I suggested in my testimony was to allow those States that might be having problems to offset what they will be receiving two, three years down the road so that they would not have to do the full 20 percent match now. So we have asked to take a look at extending what you did in the act last year.

But also, one of the other things we asked for is a little more flexibility on the projects, like being able to look at repairs and resurfacing on the interstates that we can't now do. We can do it on other roads, but we have to take it step by step or program by program to DOT to try to facilitate that procedure so we can move much quicker. But again, many States could do more if we have the match. Some States don't.

The CHAIR. There is also a 20-percent waiver provision in ISTEA that says that States can waive the 20 percent and repay it under the original bill, repay it by 1994; or to the extent they don't repay it, their 1995 and 1996 apportionments would be reduced. Frankly, I tried to extend the 1994 to 1995, and the 1995–1996 to 1996 and 1997 fiscal year basis last year. Unfortunately, it was voted down. But why are the States not then utilizing the waiver of the 20 percent factor right now? I mean, in your case, you say you have 50 percent.

Governor MILLER. Staff indicates to me, Mr. Chairman, that every dollar that was allocated was expended last year. While there might be some problems with the matching funds in individual States' the money was expended. And if that is the case, if we are trying to get actual dollars spent, the acceleration of the additional dollars would seem to be available for infusion into the economy.

Now, I don't know if we are talking apples and oranges here, but that is what was indicated to me.

I will be glad to provide whatever specific information that you would desire in that regard.

The CHAIR. One of the criticisms that we are getting right now in trying to push forward with the economic stimulus program is that States and localities are not utilizing ISTEA. I don't believe it. But this is what I am getting hit with as one of the principal authors of ISTEA, and now as chairman of the Public Works and Transportation Committee, trying to push for an economic stimulus program right now.

Governor MILLER. You addressed the short funding, which is not your concern, but I am told there might be some miscommunications here as to whether or not it is being expended or not; and certainly we will have our staff provide whatever information to the committee in that regard that you desire. Funds in congestion mitigation have not been spent quickly as that is a new program. Since local oriented funds from prior years are spent first, States have not fully used the current year apportionments—primarily because of the limitations on obligations in annual obligation ceilings. Also some demonstration projects are slow to move.

The CHAIR. Mr. Panetta, the Director of OMB, says he doesn't think that—even if we poured more money into ISTEA, there isn't the capacity in the private sector to be able to absorb the work. I happen to think there is. I have a list from AASHTO as well as from NGA, saying here is $16.7 billion of work that is ready to go in the next 90 days.

Now, they say we need more specificity. I don't know how much more specificity you need in this report from NGA or from AASHTO. I am going to give it to them tonight. The U.S. Conference of Mayors and the National League of Cities have also said, as well as NACO saying, hey, this is what we think can be ex-

pended if there is more money, either into ISTEA or into a supplemental package that increases the amounts. What I would like to do, frankly, is waive the 20 percent in terms of a short-term stimulus package.

Governor MILLER. The list that we prepared to present to the committee today was only completed last Friday by AASHTO, and it might be the same that you have, Congressman. But I can tell you that the Secretary of Transportation had not seen it Sunday night; and I asked him today, and he had just seen it for the first time yesterday, and I am sure it is distinctly possible that OMB has not seen it as yet. It is very specific.

Governor EDGAR. The other point I wanted to raise, if there is a slowdown, to some extent it is just the hoops we have got to go through to get a project to become reality. And again, one of the things we suggest here is for you to take a look at those requirements; and perhaps we can remove some of the ones that aren't that necessary so we can get these projects to reality much quicker. For example, you go into one Federal agency that deals with one part of your problem, and then they send it over to the division and deal with discharge. If you could do all that together, have that agency, the different divisions, work at the same time, we could move a lot of these projects quicker.

And the money you appropriate, I think you could see results much quicker if we didn't have as many, as I said, hoops to jump through.

The CHAIR. Well, let me thank all of you for your testimony here and for the leadership that you have been providing, not only through NGA, but through your individual States, and it is always good to be with my friend and colleague and neighbor, Bob Miller. We are proud of him as a University of Santa Clara graduate——

Governor MILLER. Shortest commencement speech.

The CHAIR. That is right. I will tell you the shortest commencement speech that was ever given at a university was when Governor Miller got up and admonished the students to succeed and succeed and succeed, and with that he sat down. There was a standing ovation.

But we are proud because we not only have Governor Miller as a graduate, but Leon Panetta, and Dee Dee Myers, the President's press secretary, all from Santa Clara University. And this morning there was a breakfast, a meeting of the Association of Catholic Colleges and Universities, mostly Jesuit schools—in fact, all Jesuit schools. In fact, Georgetown took pride in the fact that President Clinton is a graduate of Georgetown. But we are able to claim three of his critical people being from Santa Clara.

Bob, we are proud of you. Thank you very, very much.

Mr. WISE [presiding]. I thank the full committee Chairman, Mr. Mineta. And I also thank the vice chair of the Economic and Development Subcommittee, Mr. Blackwell, for chairing while I had to be out of the room. I turn to Mr. Collins of Georgia for any questions he might have.

Mr. COLLINS. Thank you, Mr. Chairman. It is not hard to become ranking when you are the only one left. You move up quickly.

Mr. WISE. Upward mobility.

Mr. COLLINS. I just want to extend my appreciation to the Governors for being here today and bringing forth your testimony. In reading the remarks of the association, though I noticed they referenced several times "mandates," you kind of skated around mandates and loopholes a few minutes ago.

I would like to if—sometime in the future; I know you don't have these figures here today—but to have some type of report on exactly what Federal mandates have cost you as a State, and also what you have had to pass on down to your local governments, and how we might address some of those issues so that you could stretch your dollars further.

With that, I close. Thank you.

Governor MILLER. I can answer that now, Congressman. In Nevada, it is $111 million out of a billion.

Governor EDGAR. Mr. Chairman, excuse me, I wonder if I could be excused? I am going to have to go, too. Thank you very much.

Governor NELSON. Mr. Chairman, I have the same problem. I think it is the same flight.

Governor MILLER. I don't know if I want to stay and be the only one, but I will gladly stay if there are other questions.

Governor NELSON. I would respectfully ask that you perhaps keep the record open so we can respond to Chairman Mineta's concerns, because the information that staff is providing me in one ear over here is inconsistent with what you have been informed, and we would like to be able to get you the facts so that you have all the information available before you deliberate.

Mr. WISE. One-year information is inadmissible before the subcommittee, so we would be delighted to keep the record open.

The CHAIR. Mr. Chairman, if I might just say, there has been a lot of comment about the ability to absorb any additional amounts and whether or not the States have already taken advantage—local governments have taken advantage of the provisions in law already; and I keep getting the admonition, we want more specificity. Whether it comes from Bob Rubin or Leon Panetta, they say "more specificity." So I am going to try and give them as much of that as possible, whether it is the AASHTO report, NGA's statements, the U.S. Conference of Mayors, the National League of Cities, or any others.

So again, thank you very, very much.

Governor NELSON. We will be happy to submit additional information for you. Thank you.

Mr. WISE. Thank you. Had the gentleman finished his questioning, the gentleman from Georgia? Were you finished?

The gentleman from Pennsylvania, the vice chair of the subcommittee, Mr. Blackwell.

Mr. BLACKWELL. Thank you, Mr. Chairman. Governor.

Governor MILLER. I will defer to one of my colleagues.

Mr. BLACKWELL. President Clinton has been in office, I think, all of maybe two weeks, and there has been a lot of criticism of the way he started; and I think it is the old game, you know, trying to box him in before he gets started. I just believe that the governors, like yourself, who come in asking for help—I think you should stand up and support him and tell whoever is doing it to cut it out. No one is going for it, because we know that Rome

wasn't built in a day; we are not going to clear up all this nightmare in two weeks.

But I think it is important for those who want help from this Federal government—I think it is very important that you not only come in here and speak up for this President and tell them to stop the nonsense, but also to give us ideas in terms of how we should pay the bill.

You know, everyone comes in and tells us that they want money. And I think that is right; I believe the Federal government should do more. But this is a team effort, and I believe that the President will have to make some very serious decisions in terms of how he sets the tone for the country, in terms of how we spend money, in terms of how we lower the deficit, and in terms of where the money is spent.

I am wondering if the governors have any idea as to what we should be looking at in terms of new revenue sources. Do you have any idea?

Governor MILLER. Congressman, let me answer both parts of your question, if I might. The first is that the President has received bipartisan support from amongst the governors of the proposals that he has put forth. Both the present chairman of the association, and the vice chairman, Carol Campbell, a Republican from South Carolina, have stated support for the President's proposals to deal with the economy; and I can tell you that, in sitting with my colleagues, that there is near unanimous support for some dramatic changes to be made to revitalize the economy.

As it relates to the governors' coming in and asking and not standing up, your question is very timely. Two hours ago we passed a resolution relative to the Federal budget deficit, and there was much discussion. It was near-unanimous in passage. The discussion was whether we were interfering with Federal policy, and the conclusion was that it was not our intent to interfere with Federal policy, but that we ought to stand up to these tough issues that face the President, and the Congress as well, and that we show our support in making those difficult decisions in the same fashion that we request your assistance in meeting the problems that are in the individual States. I will be glad to provide you with a copy of the resolution.

As I said, it is only two hours old, and you know, it isn't that we suggested a lot of specificity in it, but we also discussed with the President a willingness, bipartisanly, to sit down with him and Members of Congress and embark upon a plan to help reduce the deficit at the Federal level.

So we will have active involvement therein, at least at the presidential level.

Mr. BLACKWELL. Thank you.

Another question: It has been my experience over the years that whenever you try to stimulate the economy, it is predicated on the cooperation of the Federal Reserve System. I firmly believe that the Federal Reserve System has been very detrimental to our economy at times. When the President was trying to do something, they decided to go the other way: raise the interest rates. And it last had the effect of rendering whatever we do ineffective.

What can the governors do to force the banking industry—more specifically, the Federal Reserve System—to cooperate, to make sure that if we take steps to stimulate this economy that they are not going to do something to upset it overnight? And it can happen and it has happened. What would you suggest that we do?

Governor MILLER. Well, I must profess that as Congressman Mineta pointed out about my education, what he didn't tell you was after three years as an economic major I ended up with a degree in poli-sci. So I don't profess to be an economic expert at the Federal level. I can only tell you that most governors feel that we are somewhat hamstrung when it comes to dealing with banking policy because of the Federal regulations; and certainly it is something that we have been concerned about, because money is less available now than it was in the past.

But yet if you talk to the chairman or officers of almost any bank, they will tell you that they are lending money hand over fist. That is inconsistent with what businesses and individuals tell me.

I can't make a specific suggestion, but I——

Mr. BLACKWELL. I am talking about the policies of the Federal Reserve System. We do something to stimulate the economy, and right away the prime interest rate is out of whack. You know it is happening. It has happened in the past. Somehow, somewhere, if we are going to be successful—it is not enough to come in and say that we want money from the Federal government; this is a team effort, and everybody has to play a part, and we are going to put in a lot of hours trying to find out what we can do to rebuild the infrastructure of America. And to allow 12 appointed people to upset that and not cooperate, then we are wasting our time.

But I think the American people deserve more than that, and the governors of these States ought to be able to somehow use their influence, and I am not just—I don't mean to beat up on you, but I believe that governors should be able to use their influence to make sure that President Clinton is successful in what he is trying to do, at least to the extent that we get full cooperation from the Federal Reserve System where it is possible.

Many people have come in and testified that if the Federal Reserve System cooperates, we can be successful; if not, then we are going to lose this battle. So I would hope that you would take back to your colleagues what I am suggesting.

Governor MILLER. In addition to more carefully scheduling my departing flights in the future, I will certainly take back that suggestion.

Mr. BLACKWELL. Thank you, sir.

Mr. WISE. I thank the gentleman. The gentleman from California, Mr. Filner.

Mr. FILNER. Thank you, Mr. Chairman. I thank the governor for staying. I hope the Chair passes a law that says no witness can leave before the freshmen ask questions in the future.

But just very briefly, I represent the City of San Diego, which, like many areas in the country, not only has severe economic recession, but in addition, faces the long-term needs of trying to wean itself from a military economy and embark upon an economic conversion program. And it seems to me that we ought to take this opportunity at this juncture with a new President in linking that

short-term stimulus to the long-term needs of economic conversion to diversification, to weaning the economy from its military dependency.

And I was just wondering if the governors or, Mr. Chairman, this committee in the past has looked at dealing with the projects that are on these lists and even who gets the contracts to build them within the context of a conversion policy that will allow us not only to give that short-term stimulus, but really build the long-term future of the Nation.

Governor MILLER. I think the simple answer is that it has not been specific to conversion, although I happen to share the concern that you have, especially when it relates to the defense industry. We in Nevada have the specific problem with the Nevada test site, which is the site of nuclear testing—at least it is at the present, it won't be much in the future—and conversion is a very top-call issue in the southern portions of our State.

This list was designed to address only transportation-specific agendas to reflect as expeditious an expenditure as possible. Your points are well taken, but they haven't been discussed by the governors collectively or individually, to my knowledge.

Mr. FILNER. Thank you.

I hope, Mr. Chairman, that we on this committee look at those connections as we make recommendations, and I think we can make a real contribution to the long-term economy of this Nation.

Mr. WISE. That is an excellent suggestion, and I just want it on record that new members may come later in the list as far as being able to speak, but they always have excellent ideas. We appreciate that.

And actually someone who is not a new member, the gentleman from Tennessee, Mr. Clement.

Mr. CLEMENT. Thank you, Chairman Wise. I want to congratulate you for having this hearing today, and we do have an outstanding chairman of our subcommittee, Governor Miller.

Mr. WISE. You can see why he is a senior and respected Member.

Mr. CLEMENT. Governor Miller, it is a privilege having you here today. I think it has been very helpful and very informative to have so many governors from various places in the country to speak to this Economic Subcommittee, where we have to make some difficult and bold and controversial and courageous decisions; and I hope we will do just that.

As you know, President Clinton in his campaign—the theme of his campaign, the focus of his campaign was, "It's the economy, Stupid," and I think both of us realize we have a window of opportunity and we had better capitalize on that window of opportunity.

I grew up in the governor's residence in Tennessee. I spent 10 years in the governor's residence when my father, Frank Clement was Governor of Tennessee, so I have got a lot of stories I will have to share with you sometime.

Do you know of any, any issue or any problem greater than infrastructure when it comes to being able to put people to work quicker, faster? I know on our ISTEA that Chairman Mineta talked about earlier, that in itself creates 3 million new jobs in the next six years; and now we are talking about a major commitment over and above that.

Governor MILLER. Let me respond to your first question. I hope you can share those experiences with my wife. She is writing a book, about children in the Governor's mansion, because so many that come through the mansion are children, and they don't like reading about the governor and the first lady. They want to read about children.

So if you have got some good stories, we would love to have a Tennessee anecdote.

To answer your question, personally I can't think of one that can be more readily accessible to stimulating the economy; and I can't speak for all the governors, because we didn't discuss it to that degree of specificity. But I would suggest that most governors would agree that there is a mechanism in place in which we plan long-term and the short-term acceleration that can stimulate the economy probably more expeditiously, more readily and more effectively than virtually any other area.

Now, I don't suggest that that stimulus can't also occur in existing programs like CDBG or clean water or certainly some inner-city projects that might come within your realm as well. But I think on a broader basis, national economic concern, that this probably would be the area that most of us would agree would be the most expeditious and perhaps most effective in the short term.

Mr. CLEMENT. Governor, when it relates to an energy tax, a tax on imported oil versus a gasoline tax, do you have any opinion on which direction? I know some States are more restricted in their tax base than other States, and some governors would prefer not moving in one direction, because they feel like it is more moving into their territory and really hurts them when they have to generate revenues themselves.

Governor MILLER. Governor Sullivan, who had to leave, is from one of the few States that has lower taxes than we do in Nevada; and he gets his State's revenue through gas and oil. We get ours through assessments on our gaming industry. So he has very strong opinions in that regard.

There is a divergence amongst governors about energy taxation. I think as it relates to gasoline taxation, our position, at least the consensus position, was outlined earlier in that that should be dedicated to infrastructure funding, as we have suggested. I don't think that you can reach a consensus opinion as to exactly how we would suggest energy taxation be processed, but certainly there is a willingness on our behalf to meet with congressional leadership, as well as with the White House, to discuss any such proposals—in fact, probably a desire to do so.

Mr. CLEMENT. Would you put infrastructure needs as a higher priority than budget deficits?

Governor MILLER. I don't think that I can respond to that Catch–22 question. At least I would suggest that there is both a short-term need for infrastructure structure investment and a long-term need for deficit reduction. That doesn't mean that the deficit reduction shouldn't start immediately.

What I am suggesting is that the long-term effect on the economy will be disaster if we don't immediately address the deficit reduction. The present recession can linger and perhaps lengthen and

perhaps even intensify if we don't address things like infrastructure.

So I can't pick one from the other. Both are very real needs. And the infrastructure is to get us out of the present doldrums of the recession, the deficit reduction is to make sure that we can remain a viable and prosperous country in the long term.

Mr. CLEMENT. Governor, I might share with you one story quickly as the son of a former Governor from Tennessee, and I'll—my father was only 32, 33 years of age when he was elected governor, and I was only nine years of age. So I grew up with prisoners and the highway patrol. And prisoners sure played basketball and football rather well. And for several years—at nine years of age, I couldn't make up my mind which group I liked the best.

Governor MILLER. Well, I can tell you a similar story if you will allow me just one minute.

My wife, related it to several of the new first ladies at what is called a New Governors Conference—I call it How to be a Governor 101. A gentleman was talking about the situation of having trusties in the mansion, the difficult decision it is to make between whether you desire those that have a DUI, a narcotics background, or those that are in for violent crime, such as murder.

And she said, my husband suggested maybe we should have some of these violent criminals around; these narcotic offenders are such a frequent offense, I think we should have some of these murderers. And she said, you know, I used to have a normal life where I wasn't saying I wanted to have murderers in my house, so——

Mr. CLEMENT. Thank you.

Mr. WISE. I thank the gentleman from Tennessee. I would note you have a heck of a hook shot, so I don't know where that derives from.

Governor, if I could ask a follow-up question? We talked about short-term and long-term stimulus packages, and I can't speak for the White House, but I am assuming the way this progresses is that there would probably be a bill dealing with a short-term economic stimulus—much along the lines of what we have been talking about, projects ready to go—and then a longer-term bill.

I was wondering if you had some observations about the types of projects that might be in one versus the other.

You spoke about ISTEA. It would seem to me that ISTEA—with the exception of, probably, rehab projects on roads—that ISTEA might be something that would be more in a longer-term package, whereas, say funding for the SRF, or for getting more money into water and sewer projects would be in a shorter-term package. I am not trying to give you in a Hobson's choice, but I just wondered; you might have some observations about what infrastructure might be ready to go the fastest.

Governor MILLER. My own assessment is that ISTEA would necessarily be a long-term project, but the outline that we put forth would suggest some short-term financing opportunity. In our example, for example, the ones that we have outlined in Nevada are two road projects and a pedestrian over-cross at one of the major intersections that we can readily access. Certainly clean water and CDBG are readily available funding also.

The characterization that if you are looking at it in what I would call the longer term, it is possible that we will be looking at different modes of transportation and whether or not the existing infrastructure system should be expanded to the exclusion of mass rail transit or MAGLEV or others. I know that the Bush administration was looking into that early on in their term, and to some degree later on. And I know that because of environmental concerns, that Secretary Pena and the Clinton administration will also look at that basic question, which would be a long-term question.

I don't know if that answers your question. I think we tried to outline these three things, all of which are something we feel can be immediate infusions in the economic stimulus. And I would include the ISTEA definitely in that category, and in fact it is the one that we probably would most suggest would be a valuable short-term expenditure.

Mr. WISE. I appreciate that observation.

Ms. Molinari, any finishing comments?

Ms. MOLINARI. I just want to thank the governor for staying with us. Those of us who have been in your position understand the difficulty one experiences when your friends leave you. So we appreciate the fact that you stayed and shared your input, and we look forward to working with all the governors towards the realization of this plan. Thank you for your time.

Governor MILLER. The Congressman unfortunately had to leave, but I play a lot of basketball. I am going to play in about two hours with some members of the Pentagon, and I have what I call a "ground hook."

Ms. MOLINARI. Does that basketball game have anything to do with your answer on defense conversion? Let them win.

Mr. WISE. I would also—Governor Miller, I want you to know that the record of this subcommittee is going to reflect that after this witness table was littered with the name tags of departed governors, there was one who stood tall, the Governor of Nevada—and we greatly appreciate it—still standing at sunset. Thank you very much.

I remind all members of the committee that the committee will resume the hearing with Members of Congress beginning at 10:00 o'clock tomorrow. This hearing is adjourned.

[Whereupon, at 3:40 p.m., the subcommittee recessed, to reconvene at 10:00 a.m., Wednesday, February 3, 1993.]

PREPARED STATEMENTS SUBMITTED BY WITNESSES

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Governor Jim Edgar, Illinois
Chair, Committee on Economic Development and Commerce

Governor Bruce Sundlun, Rhode Island
Vice Chair, Committee on Economic Development and Commerce

Governor Bob Miller, Nevada
Lead Governor on Surface Transportation

before the

House Subcommittee on Economic Development
Committee on Public Works
U.S. House of Representatives

on

Investing in America's Infrastructure:
Short and Long-Term Strategies

February 2, 1993

Mr. Chairman and members of the Subcommittee on Economic Development, we very much appreciate the opportunity to present testimony today on a subject of vital concern to every Governor. You and the entire committee are to be commended for initiating this series of hearings on "Investing in America's Infrastructure: Short and Long-Term Strategies."

This committee has consistently taken the lead in seeking higher levels of investment for infrastructure. All indications are that the President will seek congressional support and approval for a major infrastructure investment plan. We hope what you hear today will help lay the groundwork for quick action on an infrastructure package that is essential for short- and long-term economic growth.

At our winter meeting this week, the nation's Governors adopted a position in support of additional funding of $8 billion to $10 billion a year over the next five years for the surface transportation, clean water, and community development programs. We make this proposal in the context of significant deficit reduction and believe funding could come from a shift in priorities toward long-term investment. It should be noted that a portion of this financing comes from the surplus in the Highway Trust Fund, which by law cannot be used for any other purpose. Although each of us may view the scope of this recommendation somewhat differently, the vast majority of Governors believe that at least this modest increase in investment is long overdue.

<u>Future prosperity</u>. The case for long-term increases in the level of infrastructure investment has been made over a period of years. For example:

- Numerous studies have documented that the decline in public and private investment over the past two decades has contributed to lost productivity growth in our country.

- The General Accounting Office reports that over the same time period net capital investment declined sharply as a percentage of U.S. gross national product, and continues to lag behind that of our international competitors.

- Five years ago, the landmark report of the National Council on Public Works Improvement recommended that public spending on infrastructure that is key to economic productivity be <u>doubled</u> by the end of the century.

We also believe that any short-term stimulus strategy should be part of a long-term investment strategy. This is why we urge you to increase investment in existing programs such as the Intermodal Surface Transportation Efficiency Act (ISTEA), the Clean Water State Revolving Loan Fund, and the Community Development Block Grant program. One-time, short-term projects cannot be counted upon to produce long-term jobs and efficient investment of funds.

Short-term economic impact. Capital investment in public facilities is most effective at promoting growth over the long term, but it also can be properly managed to stimulate the economy in the short term. Even when economic recovery begins to take hold, it will likely take some time before many regions of our nation will recover from the strains of the worst fiscal conditions in many years. For this reason, especially, a moderate stimulus component could be beneficial, even necessary, but it must be part of a long-term investment strategy.

Maximum effect. We believe that the most effective short-term stimulus can be achieved by increasing investment in existing programs where projects are ready to go. This will create jobs quickly by focusing on an industry such as construction that has a high unemployment rate. With 60,000 jobs produced either directly or indirectly with each billion dollars spent in construction work, the hard-hit construction industry could help revitalize the economy. Use of existing program mechanisms to channel funding also ensures accountability for the appropriate use of funds on priority projects.

Even using existing programs, measures can be taken to ensure the rapid deployment of funds. Some additional flexibility would be necessary, including streamlined decision processes, expanded eligibility for rehabilitation projects, and relaxed matching requirements.

Our strong view is that short-term strategies ought to be consistent with longer term goals. We believe our recommendations are good for the short term and even better over the long term.

The program recommendations we present today are drawn from a proposal that was developed by associations representing Governors, legislators, and state agencies. The programs we recommend were selected based on their value to long-term economic growth, their high volume of unmet priority projects, their inventory of ready-to-go projects, and their ability to create jobs quickly. We recommend that added infrastructure investment funding should be channeled through the Intermodal Surface Transportation Efficiency Act; the Clean Water State Revolving Loan Fund; and the Community Development Block Grant program.

The paper, "Infrastructure Investment for the 1990s," contains more detailed information on short- and long-term needs, benefits of the increased investment, and program history. A chart in the paper portrays the five-year plan with baseline and increased annual spending levels for each of the programs.

Intermodal Surface Transportation Efficiency Act

The Intermodal Surface Transportation Efficiency Act (ISTEA) was enacted in 1991 with great promise for expanding and upgrading investment in roads and highways, bridges, and mass transit systems. It had the overwhelming support of Congress and was signed into law by the President. It promised more than $25 billion a year for highways and transit improvements, but funding has fallen short by nearly $4 billion. Some state highway programs actually are receiving less than two years ago. That has meant thousands of lost jobs in the short term and a blow to economic competitiveness in the long term.

The Governors are unified in asking that ISTEA be fully funded -- for highways and transit systems -- this year, and for the life of the legislation. This would increase highway funding by $2.5 billion and transit funding by $1.3 billion. In addition, we are asking that the $6.5 billion in carryover funds that have been withheld under obligation controls be released. This action -- full funding of ISTEA -- should be taken regardless of the current economic circumstances. The sluggish economy, however, makes it even more urgent.

The National Governors' Association (NGA) also calls on the Transportation Secretary to fully, actively, and consistently implement the provisions of ISTEA that will produce quick preventive action to repair and restore transportation infrastructure. This action should ensure eligibility for simple preservation projects, greater flexibility among program categories, streamlined decision processes, and relaxed matching requirements.

Fully funding ISTEA will provide immediate action without creating new programs or structures. States committed all available highway funds to projects in 1992 and they can rapidly allocate additional funds to worthwhile projects. A December survey by the American Association of State Highway and Transportation Officials (AASHTO) shows that states can start work this year on an additional $8.5 billion in highway and bridge projects alone, with labor-intensive rehabilitation projects presenting the most pressing need.

A more recent AASHTO survey conducted at the request of U.S. Transportation Secretary Federico Pena indicates that more than $6.5 billion in contracts could be awarded within sixty to ninety days of enactment of a stimulus program. These projects are really ready to go.

The U.S. Department of Transportation (DOT) has documented the level of investment required to sustain the nation's highway and transit facilities. Capital needs for America's highways stand at $46 billion a year -- just to maintain 1989 conditions. That is $9.5 billion more than the current annual

investment nationally. To significantly improve conditions would require more than doubling the nation's capital investment, from $36.2 billion to $74.9 billion each year. The DOT also projects a capital funding need for transit systems of $7.5 billion a year.

Full funding for ISTEA has the widespread support of federal, state, and local governments. We are committed to make it work and funding is available. The trust fund has collected fees from people and businesses for upgrading transportation systems, and the funding should be spent. Full funding is the necessary first step in any consideration of an infrastructure investment package.

Clean Water State Revolving Loan Fund

The 1987 Clean Water Act eliminated grant financing for wastewater treatment infrastructure and established a loan program. Creation of the State Revolving Loan Fund (SRF), capitalized with federal seed funding and a 20 percent additional state match, has been effectively implemented in all states. Funding at about $2.5 billion a year for the state revolving funds provides for twenty-year loans to communities to support construction of wastewater treatment plants. These are all locally-sponsored projects.

Yesterday, NGA adopted a policy position recommending that $5 billion per year in federal capitalization grants be provided to the state revolving funds, representing an annual increase of about $2.5 billion. This would return the program to the level of federal support provided in 1980, when the Clean Water program was funded at $5 billion. Considering the effects of inflation, that was a substantially higher level of investment than we are asking for today. We should at least restore funding to 1980 levels in nominal terms to help pay for some of the most costly federal mandates.

The Governors strongly support the continued use of state revolving loan funds as the primary source of wastewater infrastructure financing. The loan program allows states the flexibility to target priority needs and provide incentives to local government to reduce costs and develop appropriate user fee systems. Revolving at the state level, the loan funds have a multiplier effect that can leverage two to five times the original investment through bond issuance and loan repayment. By contrast, direct federal grants discourage local initiative and may unintentionally reward noncompliance.

Wastewater infrastructure financing offers both an excellent short-term stimulus and a vital investment in the long-term strength of the economy. The Association of State and Interstate Water Pollution Control Administrators has documented more than $10 billion in wastewater treatment projects that are ready to move immediately to construction. A waiver of the 20 percent state matching requirement -- for the $2.5 billion in supplemental funds -- would ensure immediate investment by all states. Because of the multiplier effect, the long-term benefits of continuing reinvestment are even more advantageous.

In addition to economic considerations, the public health and environmental consequences of inadequate investment levels could become severe. The nation has some very serious water quality problems; without an increase in funding, progress toward meeting clean water goals will stop short and existing water quality will suffer. The nation's wastewater treatment needs now exceed $200 billion, including $70 billion for the costs of unfunded congressional mandates from the 1987 Clean Water Act.

Community Development Block Grant Program

The Community Development Block Grant (CDBG) program is the largest federal grant-in-aid program for a wide range of community development projects that primarily benefit low-income and moderate-income people. CDBG provides direct funding to nearly 800 cities and more than 100 urban counties nationwide. Since 1982, states have managed the 30 percent of CDBG funds that are earmarked for use outside these urban centers. Most of the funds that go to states are used for public facility projects in small communities. Public facilities such as water and wastewater infrastructure are among the eligible projects selected by local communities for funding. More than 30 percent of state CDBG funds are traditionally used for water and sewer projects.

Funding appropriated for the CDBG program totals $4 billion in 1993; $4.2 billion is authorized for fiscal 1994. An additional $1.2 billion this year would help meet some of the tremendous wastewater treatment needs in small communities. The availability of small community or hardship grants through the CDBG program is essential to enable rural communities to comply with environmental and public health mandates.

A recent survey by the Council of State Community Development Agencies indicates that states could have spent more than twice their 1991 funding allocations on community infrastructure investment projects. Demand for CDBG grants has increased sharply as state and local governments struggle to comply with the new Clean Water Act requirements.

Conclusion

Mr. Chairman, this nation has tremendous needs in infrastructure investment that must be met, and we must be prepared to meet the challenge. However, states and localities cannot shoulder the financial responsibility alone. Additional federal funding of $8 billion to $10 billion a year in the surface transportation, clean water, and community development programs, as part of an economic recovery plan, would represent a downpayment on our future prosperity. The increased investment in infrastructure programs will provide needed stimulus to create jobs in the short term, but are even more vital to our long-term prosperity and economic competitiveness.

The challenge that is before us requires a strong and vital partnership that draws upon all levels of government and the private sector. We want to consult closely with the committee as you develop your proposals and look forward to working with you and the new Administration on strategies to improve America's infrastructure and revitalize our economy.

INFRASTRUCTURE INVESTMENT FOR THE 1990s

Developed by the:

National Governors' Association
National Conference of State Legislatures
American Association of State Highway and Transportation Officials
Association of State and Interstate Water Pollution Control Administrators
Council of State Community Development Agencies

January 15, 1993

DRAFT
THIS PROPOSAL HAS NOT BEEN FORMALLY ADOPTED BY THE NATIONAL GOVERNORS' ASSOCIATION.

INFRASTRUCTURE INVESTMENT FOR THE 1990s

January 15, 1993

INTRODUCTION

Background

Between 1948 and 1973, the growth in U.S. productivity averaged nearly 3 percent per year. In 1973, productivity growth declined dramatically, averaging just 1 percent per year since that time. This significant drop in productivity growth has resulted in a substantial decline in real wages and a stagnant standard of living for nearly two decades. (The reductions in the standard of living would have been greater had the number of two-wage earner families not increased dramatically.)

While the underlying causes of the slowdown in productivity are not entirely clear, there is substantial evidence to suggest that it has been caused, at least in part, by the decline in public and private investment over the last twenty years. To assist in increasing long-term productivity, we are recommending a modest increase in highway, transit, clean water, and other infrastructure of $8 to $10 billion per year over the next five years, as noted in the attached table.

This proposal is made within the context of significant deficit reduction. Funding would come from a shift in priorities toward long-term investments in America's future. This is a long-term proposal to increase public investment and productivity. While the intent is not to stimulate short-term growth, it could be modified to also be an effective short-term policy. If there is a short-term stimulus package, then these proposals are the ones most consistent with long-term growth. To ensure the rapid deployment of funds, some additional flexibility would be necessary, including a streamlined decision process, expanded eligibility for maintenance projects, and relaxed matching requirements.

This proposal was created as a joint project of the National Governors' Association, National Conference of State Legislatures, American Association of State Highway and Transportation Officials, Association of State and Interstate Water Pollution Control Administrators, and the Council of State Community Development Agencies. It is consistent with the existing policies of these organizations.

A Long-Term Policy

Recent studies clearly indicate that there is a need for more private investment in capital equipment and research and development. Also important is the need for increased public investment in education, training, infrastructure, and research and development. Among the most important components of public investment from the federal level is infrastructure. A host of analytical studies support the fact that increased, long-term commitments to infrastructure reap major returns in increased productivity, international competitiveness, and an enhanced living standard. The General Accounting Office recently indicated that net investment has declined sharply as a percent of gross national product from 9.8 percent in the 1960s to 6.0 percent today. This makes the United States last compared with the other twenty-four member nations of the Organization for Economic Cooperation and Development.

A Short-Term Policy

Increased infrastructure investment is an excellent long-term economic strategy, but it also can be an effective short-term stimulus. In the short term, financial support of the nation's infrastructure:

- utilizes existing programs and regulations to quickly create jobs;
- focuses support toward an industry that has a high unemployment rate;
- targets programs where state surveys indicate that a substantial number of projects are ready to go to construction;

- provides much needed funding support directly to state and local governments; and
- minimizes the short-term impact on the federal deficit.

Program Areas

The states' proposal for *Infrastructure Investment for the 1990s* focuses specifically on the major high-priority infrastructure programs:

I. Intermodal Surface Transportation Efficiency Act (ISTEA)
II. Clean Water State Revolving Loan Fund
III. Community Development Block Grant

Immediate investment in these three programs will increase productivity and create jobs in the short and long term. The short-term outputs also will increase the long-term quality of American life. For example, transportation investment will reduce congestion and improve air quality across the nation. Similarly, investments in water and wastewater treatment systems and community development will enhance the health and environmental welfare of Americans, and at the same time, provide community revitalization.

I.
INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT (ISTEA)

Program Description

ISTEA authorizes funding for roads and bridges, highway safety and transit programs, highways, and a part of the transit programs being financed out of the Highway Trust Fund, with flexibility to move substantial amounts of highway funding to transit.

The ISTEA authorization for fiscal 1993 for highways totaled $20.4 billion, and for transit $5.2 billion. Regrettably, Congress has appropriated only $18.0 billion and $3.8 billion, respectively. In addition, $6.5 billion remains inaccessible due to obligation limits. It is estimated that at least 15 percent of highway program funding will be spent at the local level. The majority of the transit funding also will go to local governments and transit agencies. Depending upon flexibility decisions, more funding could be spent at the local level, since many state projects occur in urban and suburban areas.

The Specific Proposal

Fund ISTEA to at least its congressionally authorized levels, for both highways and transit, for the life of the legislation.

The Secretary of Transportation should fully, actively, and consistently implement the provisions of ISTEA that will produce quick preventive action to repair and restore transportation infrastructure. This action should assure eligibility for simple preservation projects, greater flexibility among program categories, streamlined decision processes, and relaxed matching requirements.

The provisions of ISTEA allow states to have 100 percent funding for highway projects in fiscal 1992 and fiscal 1993. A few states indicate possible matching problems in fiscal years 1994 to 1996, which could be resolved by extending current provisions. Some local governments and agencies might need a waiver on the match for transit.

Long-Term Needs

The Federal Highway Administration has documented federal-aid highway capital needs to be at least $45.7 billion per annum to maintain 1989 conditions, and $74.9 billion to significantly improve conditions to a reasonable level. By comparison, in 1991, the total capital investment by all levels of government was only $36.2 billion. In transit, the Federal Transit Administration indicates a capital funding need of $7.5 billion.

The states' capacity to use highway funding beyond the authorized levels of ISTEA was addressed in a December 1992 survey by the American Association of State Highway and Transportation Officials (AASHTO). The data collected indicate that some $23 billion is needed above and beyond the authorized ISTEA levels.

Short-Term Needs

States and other intended recipients of ISTEA funds are prepared to put additional funding to immediate use. The AASHTO survey identified a state capacity to utilize at least $8.5 billion in additional highway funding during fiscal 1993 over the $18.1 billion provided, of which some $3.5 billion would be utilized on labor-intensive rehabilitation projects that could move quickly. An American Public Transit Association survey of transit agencies and states found that they could utilize an additional $7.2 billion in the next ten months.

II.
CLEAN WATER STATE REVOLVING LOAN FUND

Program Description

The 1987 Clean Water Act revolutionized wastewater financing by eliminating the Construction Grant program and creating the State Revolving Loan Fund (SRF) to finance wastewater infrastructure in perpetuity. SRF, built with federal seed funding and a 20 percent state match, has been implemented in all fifty states, has been well accepted, and is hailed as a model for federal, state, and local cooperation. State-administered SRFs provide in perpetuity financing and expedited construction of environmental projects.

The act envisioned a six-year $8.4 billion capitalization to be phased out in fiscal 1994. However, because of the effectiveness of SRF, Congress continues to fund the program -- $2.48 billion in fiscal 1993, with all funds going to locally sponsored projects and a subset of $490 million in grants for eleven specific municipalities. Revolving at the state level, SRF has a "multiplier" effect that can leverage two to five times the original investment in construction through bonds and loan repayments. In contrast, 55 to 75 percent of federal matching grants discourage local initiative and often reward noncompliance.

The Specific Proposal

SRF should be authorized and appropriated at the $5 billion level annually in fiscal years 1994 to 1997, as originally authorized for wastewater by the Clean Water Act of 1972. This amount does not reflect the $10 billion in increased mandates under the 1987 act or inflation. Because SRF is unique in its ability to provide capital investment and jobs (e.g., $5 billion generates up to 350,000 jobs annually and more than two to five times that investment in projects over time), the long-term benefits are particularly attractive in SRF. The authorized level for this program in 1980 was $5 billion.

Short-Term Needs

To ensure immediate investment, states need:

- elimination of the match requirements for any supplemental appropriation;
- eligibility for purchase of land/easements;
- elimination of restrictions on funding collectors and combined sewer overflows;
- elimination of disbursement restrictions under the letter of credit;
- extended repayment periods and blended principal subsidies with loans for small hardship communities;
- elimination of limitations on refunding/refinancing and cash payments;
- elimination of funding for project-specific grants; and
- eligibility for water supply projects in states currently meeting Clean Water Act requirements.

The Association of State and Interstate Water Pollution Control Administrators has documented wastewater needs in excess of $10 billion in projects able to move immediately to construction.

Long-Term Needs

State are encountering significant difficulty in providing a 20 percent match. To address this and related concerns, there is a need to:

- simplify federal requirements;
- provide broad flexibility to extend repayment periods;
- increase the administration allotment above the 4 percent of an annual appropriation; and
- enhance eligibilities, provided funds are available above the $5 billion level.

The nation's wastewater treatment needs documented by the states and the U.S. Environmental Protection Agency (EPA) exceed $130 billion. With the inclusion of unfunded congressional mandates from the 1987 Clean Water Act (e.g., stormwater, pretreatment, combined sewer overflow, and toxic controls), this figure will exceed $200 billion. SRF, with its leveraging potential, offers the most effective national vehicle for addressing these needs.

III.
COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Program Description

The Community Development Block Grant (CDBG) program is the largest federal grant-in-aid program for a wide range of community development projects that primarily benefit low- and moderate-income people. Eligible activities include the acquisition, construction, reconstruction, and installation of local public works and related facilities such as water and wastewater treatment systems.

In 1992, Congress appropriated $3.4 billion for the CDBG program. By statute, entitlement communities (cities with populations of at least 50,000) receive 70 percent of the appropriation and states receive 30 percent, which is passed on to local governments in nonentitlement areas (cities, counties, and towns with populations of less than 50,000.) More than half of state CDBG funds were invested in public facility projects in 1990, and of this amount, approximately one-third was invested in water, sewer, and flood control projects. While no state or local government match is required for project funds, states must provide a match for their administrative costs allowance. By statute, states are allowed to use only $100,000 plus 2 percent of the annual allocation for administrative costs; the balance must be distributed to local government projects.

The Specific Proposal

Congress has appropriated $4.0 billion for the CDBG program in 1993 and has authorized $4.168 billion in 1994. We propose a supplemental appropriation of $1.2 billion in 1993, to bring the total to $5.2 billion. Congress should increase appropriations above the Congressional Budget Office baseline by $1.4 billion in 1994, $1.6 billion in 1995, $1.8 billion in 1996, and $2.0 billion in 1997.

The current CDBG delivery system has proven to be a cost-effective and efficient mechanism for the equitable distribution of public funds. The system can readily absorb the increased funding proposed because the delivery pipelines are in place. However, to increase efficiency and to maximize the program impact in the long term, some streamlining adjustments are needed. In the short term, adjustments are necessary to the supplemental appropriation to accelerate the distribution of funds to local governments. Waivers similar to those offered in Chairman Gonzalez's bill (H.R. 4073) are needed for CDBG to be an efficient economic stimulus mechanism.

Long-Term Needs

Based on EPA's 1988 Needs Survey, projected federal and state funding will cover only 35 percent of the community wastewater treatment needs in 46 states between 1988 and 1999. It is expected that states and local governments may have to generate the funds to fill this gap. Many small and rural communities are unable to repay even no-interest loans. Therefore, the availability of small and/or hardship community grants through the CDBG program is essential to enable rural communities to comply with environmental and public health mandates.

Short-Term Needs

Based on a 1993 survey by the Council of State Community Development Agencies, state CDBG program managers estimate that they could have spent more than twice their 1991 funding allocations on CDBG-eligible projects, most of which involve community infrastructure investment. This excess demand averages $20.5 million per state, but runs as high as $122 million in Michigan or more than 400 percent above the state's allocation. Demand for CDBG infrastructure grants is expected to increase in 1993 as state and local governments struggle to comply with the new set of requirements mandated by the Clean Water Act.

SELECTED INVESTMENTS FOR THE 1990s

	Actual 1992	Enacted 1993	Projected 1994	1995	1996	1997
ISTEA Highway						
Current/Baseline Spending	17.1	18.0	18.6	19.2	19.9	20.5
Proposed Increase		+ 4.1	+ 3.6	+ 2.9	+ 2.3	+ 1.6
Total Highway Spending	17.1	22.1[1]	22.2	22.1	22.2	22.1
ISTEA Mass Transit						
Current/Baseline Spending	3.8	3.8	3.9	4.1	4.2	4.3
Proposed Increase		+ 1.3	+ 1.2	+ 1.1	+ 0.9	+ 2.9
Total Transit Spending	3.8	5.1[2]	5.1	5.1	5.1	7.3
Clean Water Revolving Loan Fund						
Current/Baseline Spending	2.4	2.5*	2.6	2.7	2.8	2.9
Proposed Increase		+ 3.0**	+ 2.6	+ 2.7	+ 2.8	+ 2.9
Total Funding	2.4	5.5[3]	5.2	5.3	5.5	5.7
Community Development Block Grants						
Current/Baseline Spending	3.4	4.0	4.1	4.3	4.4	4.6
Proposed Increase		+ 1.2	+ 1.4	+ 1.6	+ 1.8	+ 2.0
Total Funding	3.4	5.2	5.5	5.9	6.2	6.6
Total Infrastructure Spending						
Current/Baseline Spending	26.7	28.3	29.2	30.2	31.2	32.3
Proposed Increase		+ 9.6	+ 8.8	+ 8.2	+ 7.8	+ 9.4
Total Funding	26.7	37.9	38.0	38.5	39.0	41.7

NOTES: Baseline funding projections for 1994 through 1997 are based on the Congressional Budget Office's August "uncapped" baseline assumptions. Proposed funding increases are significantly less than required to meet recently documented needs.

1. Would require no additional spending authority to fully fund ISTEA as enacted, plus allow states to spend an additional $1.3 billion per year in carryover spending authority.

2. Authorized level in ISTEA as enacted, which is partially funded by the Highway Trust Fund.

3. 1980 funding level.

* Of the $2.5 billion, an amount of $500 million was specifically targeted to regional project grants. Thus a total of $3 billion is needed to meet the requested $5 billion authorization level.

** Existing SRF eligibility (excluding drinking water systems).

NATIONAL GOVERNORS' ASSOCIATION

Roy Romer
Governor of Colorado
Chairman

Carroll A. Campbell Jr
Governor of South Carolina
Vice Chairman

Raymond C. Scheppach
Executive Director

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444 North Capitol Street
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RESOLUTION*

SURFACE TRANSPORTATION FUNDING

The Governors urge the administration and Congress to move quickly to provide full funding for the Intermodal Surface Transportation Efficiency Act (ISTEA) in 1993, and to fully fund ISTEA for the remainder of its authorization.

In the near term, investment in transportation infrastructure will provide needed economic stimulus. In the long term, U.S. economic competitiveness will be threatened if the nation's outstanding transportation infrastructure is not improved and strengthened.

The Governors further urge that the Secretary of Transportation fully, actively, and consistently implement the provisions of ISTEA that will produce quick preventive action to repair and restore transportation infrastructure. This action should assure eligibility for simple preservation projects, greater flexibility among program categories, streamlined decision processes, and relaxed matching requirements.

* Based on the policy, "Transportation Policy Overview."

Adopted February 1, 1993.

ASIWPCA

Association of State and Interstate
Water Pollution Control Administrators
750 First St., NE, Suite 910, Washington, DC 20002
(202) 898-0905 • Fax (202) 898-0929

January 22, 1993

The Honorable Max Baucus
Chairman
Senate Environment and Public Works Committee
458 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Baucus:

In response to your request for information relative to the short term needs of the State Revolving Loan Fund (SRF) for supplemental funds, the Association of State and Interstate Water Pollution Control Administrators (ASIWPCA) has surveyed the 50 States. ASIWPCA found that there are over $10 Billion ready to proceed projects currently on line that could benefit.

ADDITIONAL SRF FUNDS THAT COULD BE USED ($ MILLIONS)

	1993	1994	TOTAL
Traditional Needs: (wastewater plants, interceptors, collectors, combined sewer overflows, etc.)	$3,938	$3,741	$7,679
Other States*	345	483	828
TOTAL: 40 REPORTING STATES	**$4,283**	**$4,224**	**$8,507**
TOTAL ESTIMATED FOR 50 STATES AND TERRITORIES			**$10 Billion**

* Alaska, Arkansas, Iowa, Montana, and North Dakota can satisfy projects that are ready to go on the SRF priority list for traditionally eligible needs if SRF funding continues at FY 1993 levels. But, they could use the indicated funds if they were able to eliminate Title II requirements and provide principal subsidies for water supply or wastewater for small hardship communities or Native Tribes. Rhode Island reported in this category, as well as for traditional needs. NOTE: While the other States where not asked to provide such information, their ability to use funds for non-traditional eligibilities, if flexibility were allowed, would substantially increase the funding levels reported above.

Coupled with other ASIWPCA and USEPA information, the survey data indicates that the SRF should be appropriated at the $5 Billion level in FY 1994-97, as originally authorized by the 1972 Act. This does not account for inflation or increased mandates under the 1987 Act. It has been clearly documented that the SRF is the best mechanism for promoting construction of effective environmental infrastructure. It is unique in its ability to provide funding and jobs, with $5 Billion generating up to 350,000 jobs annually and over 2-5 times that investment over time.

Short-Term: The over $10 Billion in additional projects "ready to go" for 1993 and 1994 would enhance protection of America's waters. In providing supplemental funds, however, Congress needs to assure that funds are accompanied by the following reforms, so that States can expedite obligations:

1) Due to deficits, States are unable to match a supplemental.

2) Purchase of land/easements should be eligible. Restrictions on funding collectors and combined sewer overflows should be eliminated.

3) Limitations on refunding/refinancing and cash payments should be eliminated.

4) States should be able to extend repayment periods and blend principal subsidies with loans for small hardship communities. Smaller projects should be exempt from Federal requirements.

5) Grant projects, created by the Bush Administration at the SRF's expense, should not continue. "Special treatment for non-compliance" fuels a feeding frenzy among city lobbyists that is inequitable and threatens the very core of the SRF. The multitude of municipalities who accepted their responsibilities are being penalized.

6) States, whose projects "ready to go" can be satisfied by continuing existing funding levels, should be able to fund water supply projects and eliminate Title II and other Federal requirements.

Long-Run: Municipalities are the largest single source of water pollution. The nation's wastewater treatment needs documented by the States and USEPA exceed $130 Billion. Once the 1987 Act requirements are reflected in facility plans, they are likely to be over $200 Billion. The SRF, with its leveraging potential, offers the only viable national vehicle for meeting that need. It has been successful in the 50 States. While the Act envisioned a 6 year $8.4 Billion capitalization to be phased out in FY94, Congress continues the program because of its effectiveness. States can tailor SRFs to meet local needs, building projects cheaper and 50% faster. In contrast, with 55-75% Federal grants, cities face a plethora of nationally prescriptive requirements that increase costs, delay projects, discourage local initiative and often reward non-compliance. In providing long term funding, the following needs to be considered in addition to the above reforms as outlined in ASIWPCA testimony:

* Problems States are encountering in providing a 20% match,
* Simplification of Federal requirements,
* Broad flexibility to extend repayment periods, and
* Elimination of the 4% restriction on funds for State administration.

The Association appreciates this opportunity to respond to your request. Please contact me if you have any questions or further needs.

Sincerely,

Robbi Savage

Roberta (Robbi) Savage
Executive Director

cc: Jeff Peterson
ASIWPCA Membership
Michael Quigley

Attachment: State Funding and Project Data

ASIWPCA

Association of State and Interstate
Water Pollution Control Administrators
750 First St., NE, Suite 910, Washington, DC 20002
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ADDITIONAL SRF FUNDS THAT COULD BE USED FOR PROJECTS DOCUMENTED AND READY TO GO
[For Currently Eligible Needs (Wastewater Plants, Interceptors, Collector Systems, Combined Sewer Overflows, Stormwater or Nonpoint Source Control, etc.) -- *except where indicated by "*"*]
($ MILLIONS)

	1993	1994	TOTAL
ALABAMA	49	--	49
*ALASKA**	*63*	*63*	*126*
*ARKANSAS**	*25*	*175*	*200*
CALIFORNIA	371	385	756
COLORADO	19	200	219
CONNECTICUT	146	225	371
DELAWARE	90	42	132
FLORIDA	200	400	600
GEORGIA	95	40	135
IDAHO	19	21	40
ILLINOIS	214	--	214
*IOWA**	*20*	*20*	*40*
KANSAS	3	20	23
LOUISIANA	16	17	33
MAINE	100	200	300
MARYLAND	--	317	317
MICHIGAN	41	100	141
MINNESOTA	16	173	189
MISSISSIPPI	26	15	41
*MONTANA**	*20*	*28*	*48*
NEW HAMPSHIRE	57	120	177
NEW JERSEY	280	140	420
NEW MEXICO	20	12	32
NEW YORK	180	277	457
*NORTH DAKOTA**	*172*	*172*	*344*
OHIO	122	100	222
OKLAHOMA	37	29	66
PENNSYLVANIA	128	33	161
RHODE ISLAND	29 + *45**	18 + *25**	47 + *70**
SOUTH CAROLINA	156	116	272
SOUTH DAKOTA	25	12	37
TENNESSEE	50	50	100
TEXAS	320	--	320
UTAH	--	22	22
VERMONT	8	18	26
VIRGINIA	200	300	500
WASHINGTON	790	197	987
WEST VIRGINIA	49	30	79
WISCONSIN	82	112	194
TOTAL: 40 STATES REPORTING	$4,283	$4,224	$8,507

ESTIMATED TOTAL FOR 50 STATES AND THE TERRITORIES: ***OVER $10 BILLION***

* These States do not have projects "ready to go" on SRF priority lists for traditionally eligible needs that could now use supplemental funds, but could use the funds indicated if they were able to eliminate Title II requirements and provide principal subsidies or zero interest loans for water supply or wastewater for small hardship communities or Native Tribes. NOTE: Rhode Island has projects in both categories. While the other States were not asked to provide such information, their ability to use funds in a like manner, if flexibility were allowed, could substantially increase the totals indicated above.

Additional Statement of
Governor Jim Edgar
State of Illinois

TESTIMONY ON INFRASTRUCTURE AND ECONOMIC DEVELOPMENT

Mr. Chairman, members of the Subcommittee, I am Jim Edgar, Governor of Illinois and Chairman of the National Governor's Association (NGA) Committee on Economic Development and Commerce. I am pleased to appear before the Economic Development Subcommittee of the House Committee on Public Works and Transportation to discuss two issues of concern to the nation's Governors: the critical linkage between a sound transportation infrastructure and a healthy economy; and the need for full funding for the Intermodal Surface Transportation Efficiency Act (ISTEA) in 1993 and for the remainder of its authorization through 1997. I feel certain that you will agree that full funding for the federal highway program is an essential first step toward maintaining an efficient transportation system.

The Governors are committed to working with the President and Congress on a sound transportation infrastructure improvement program that will also provide further economic stimulus to our economy. Toward that end, I have developed a proposal, that the National Governors Association just this week adopted along with Governor Miller's call for full funding of ISTEA, urging the Secretary of the US Department of Transportation to fully, actively and consistently implement provisions of ISTEA that will produce

quick, preventive action to repair and restore transportation infrastructure, PARR. Today I would like to briefly discuss the important relationship of a sound transportation infrastructure and a healthy economy, and explain why my proposal that was endorsed by the other governors is so important to the nation's economy.

Transportation Infrastructure/Economic Development Linkage

The Governors recognize that a major underpinning to any long-term jobs outlook is the nation's collective infrastructure investments. Our infrastructure is existing on borrowed time. Aging and deferred maintenance have accumulated into problems of immense proportion. The cost of rebuilding the nation's crumbling and inadequate roads and bridges, airports and transit systems and other facilities necessary for growth and productivity is in the trillions of dollars.

Unfortunately, there is a tendency to take our transportation infrastructure for granted until there is a crisis with an infrastructure facility that jolts motorists and the business community with the realization of what happens to the movement of people and goods when a vital artery is severely restricted or closed altogether. This is partly due to the fact that our nation has enjoyed a high level of investment in transportation infrastructure from the end of World War II until the mid-seventies when we were constructing the Interstate system of highways and building new airports. This was also an era of relatively high productivity growth in the United States. However, several studies

have shown that this era of high investment and productivity has not been maintained. To name one example, I am sure you are familiar with David Aschauer who has demonstrated the strong linkage between productivity and the level of investment in infrastructure, including transportation.

With enactment of the ISTEA in 1991, and its modernized program format providing increased funding, new programs stressing facility preservation, and increased flexibilities and program efficiencies, we were encouraged that infrastructure spending would increase so that states could address their huge backlog of project needs. However, Congress set a spending limit on ISTEA programs which was only 80.5 percent of the amounts authorized by ISTEA for 1993.

The proper preservation of the nation's infrastructure has both direct and indirect effects on to employment. First, capital improvements and construction directly create jobs. That kind of employment is, however, often cyclical because infrastructure investments under current public financing mechanisms are closely affected by economic conditions. Second, and of much greater importance in the long run, jobs in all sectors of the economy rely on efficient linkage to infrastructure facilities. For example, business will not build a factory without transportation facilities that provide easy access for workers and raw materials, and allow an efficient and economical distribution of finished products.

Let me describe this connection in more concrete terms. When cargo and people are forced to spend long hours waiting in traffic jams or in crowded airports, there is lost productivity. Productivity is also lost when freight must take circuitous routes to market because of deteriorated bridges and highways. Many businesses no longer keep large inventories on hand. They rely on timely delivery of products to continue operation. When these deliveries are delayed, productivity suffers. An inadequate highway system prevents firms from choosing otherwise good sites for development, which means lost opportunities for new jobs and new revenue. Lack of rail freight service increases the cost of shipping bulk commodities was well as the cost of maintaining highways.

Underinvesting in our transportation infrastructure also carries a heavy price in terms of higher repair costs due to deferred repairs and increased operating costs. For example, a highway in need of simple resurfacing may require costly reconstructing later if repairs needed initially are delayed. Rough roads increase vehicle operating costs as tires and shock absorbers wear out faster and more frequent wheel alignments are needed. For public transportation systems, deferring the scheduled replacement of vehicles that have reached the end of their serviceable life will lead to more vehicle breakdowns and higher maintenance costs. Both drive up operating costs. In addition, vehicle breakdowns disrupt service and hamper the ability of transit agencies' to retain the riders upon whose revenue they depend. Neglecting infrastructure investment needs is an expensive option.

Maintaining a transportation network that is responsive to the needs and opportunities for economic development is an immense challenge. It is a challenge for which existing funding levels and past management and technical practices are no longer adequate. We must look at new ways to finance transportation investments and more ways to stretch limited resources for maximum benefit.

Transportation Needs

Let me discuss some of the nation's and Illinois' infrastructure needs. The nation's transportation infrastructure needs are enormous and vastly exceed available revenues. One measure of the gap was developed by the American Association of State Highway and Transportation Officials (AASHTO) in a report on the nation's surface transportation needs. The AASHTO report notes that the nation spent $66 billion in FY 1987 in federal, state and local funds on highway improvements. Investment requirements just to maintain the current condition of highways average $80 billion a year through the year 2020 and a level of $100 billion annually is required to make improvements to meet growing demand and improve current service levels.

In Illinois, the Department of Transportation maintains a comprehensive assessment of surface transportation needs on state jurisdiction roads over the next five years. This assessment compares the state's surface transportation needs with funding that is projected to be available from current revenues. It is estimated that at least $10-12 billion is needed for highway improvements throughout the state over the next five years. Only about $5

billion will be available from current federal, state and local revenues, leaving $5 to 7 billion, or over 50 percent of the need unfunded. The local system will have roughly $5 billion in needs as well.

To exemplify the situation, I would like to just highlight a few of Illinois' transportation needs:

- Interstate Rehabilitation--The interstate system is a key lifeline to the economy of the nation as well as Illinois. Today, 74 percent of the interstate system in Illinois is more than 20 years old. Over the next five years, that will increase to 88 percent. Needed rehabilitation and capacity improvements on Illinois' interstates is estimated to cost nearly $3 billion over the next five years.
- Urban Transportation--Traffic congestion in urban areas is one of the nation's most critical problems. It is particularly severe in the Chicago metropolitan area. Congestion problems require both highway and transit capital investments. Throughout the state, approximately 1800 center-line miles of urban roads (excluding interstates) are in need of improvements. It is estimated that at least $3 billion is needed to address congestion relief and preservation needs on the state system in urban areas.

Preventative Action To Repair and Restore

Now, let me explain more about my PARR proposal that NGA has adopted. As I said earlier, there is a critical linkage between a

sound transportation infrastructure and a healthy economy. The NGA call for full funding of ISTEA for fiscal 1993 and for the remainder of its authorization period will have a positive effect on the nation's economy and create jobs. The full funding of ISTEA would allow a greater number of highway projects of all kinds in all states. Under full funding of ISTEA for FY 1993 alone, an estimated 63,000 construction industry jobs would be created from spending the $3 billion in highway funding that was withheld from the states as a result of FY 1993 appropriations action. These jobs would be about equally divided between direct on-site construction and off-site equipment suppliers. In addition, another estimated 63,000 jobs are would be created when the profits and wages from the construction activity "ripple" through the economy. The impact of these additional jobs and economic activity is significant considering that all of this can be generated just from the release of funds for the highway program. Assuming no significant change in the national labor force, the addition of 126,000 jobs nationally would reduce the national unemployment rate from the projected rate of 7.0 percent for 1993 to 6.9 percent. It is further estimated that the addition of 126,000 jobs nationally would provide an economic boost that would reduce the nation's deficit by approximately $4 billion. Consequently, the release of the withheld $3 billion is more than just "revenue neutral", it is "revenue positive" in that it will result in a decrease in the nation's deficit.

As I mentioned, the PARR proposal, incorporated into the NGA resolution, calls on the US Department of Transportation to actively

seek to administer the federal highway program to enhance eligibility for simple preservation projects, to streamline project development processes, and to consider even more relaxed non-federal match requirements. These measures are proposed to expedite the use of additional spending authority for ready-to-go projects, thereby providing a quick stimulus to the economy.

I will explain what changes from current policy we envision in these areas. First, concerning broadened eligibility, we ask that the Federal Highway Administration permit simple single layer resurfacing to help preserve highway pavements until more extensive reconstruction can be funded. This strategy is used by Illinois and other states as part of an overall pavement management system. We also ask FHWA to allow simple resurfacing projects on the National Highway System without bringing other geometric features, such as shoulder width and guardrail height, up to "new design" standards when no high accident locations are involved.

Second, we ask that US DOT and federal natural resource agencies be urged to develop interagency agreements with transportation departments on a self certification process, following procedures acceptable to the resource agencies, for projects without significant environmental impacts (those not requiring an environmental impact statement). This would relieve all agencies of burdensome reviews of simple, routine projects and free up staff for those projects with significant impacts.

Third, some states have needed to use the deferred match provisions of the ISTEA even to make use of the existing level of federal highway funding for FY 1993. A $3 billion increase in obligation authority as called for by NGA (and virtually all other national transportation organizations) may necessitate a further relaxation of non-federal match requirements. Congress should give consideration to making the existing deferral provision less onerous by allowing payback of funds over time through overmatching of future projects. Perhaps even raising the federal match from 80 to 90 percent for the additional funds could be considered.

In conclusion, I would like to reiterate that a sound transportation infrastructure and a healthy economy are critical to this nation's growth. We Governors have two goals: a strengthened transportation infrastructure and economic recovery. Full funding of ISTEA is an easy first step in the right direction to reach both of these goals. On behalf of the nation's Governors, I urge Congress to fully fund ISTEA and direct the US Department of Transportation to actively and consistently implement provisions of ISTEA that will produce quick, preventive action to repair and restore transportation infrastructure, and JOBS!

Thank you for the opportunity to present my views. I commend you for your commitment to the transportation infrastructure which is a key underpinning of our economy and prosperity.

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GOVERNOR JIM EDGAR

BIOGRAPHY

Illinois Gov. Jim Edgar is chairman of the Economic Development and Commerce Committee of the National Governors' Association, president of the Council of State Governments and chairman-elect of the Education Commission of the States.

As Governor since 1991, Edgar has brought a fresh management style to the chief executive's office, setting the tone for his administration on the day after his inauguration when he cut the budget for his staff by $1 million. For the first time in anyone's memory, state government has been downsized and streamlined in order to address a budget deficit Edgar inherited while preserving and, in some cases, even boosting funding in such priority areas as education, child welfare and mental health. Moreover, the Governor recently enacted a welfare reform program known as Earnfare, which facilitates the movement of former General Assistance recipients from public aid rolls to private-sector payrolls.

In addition, he has won praise for his Cabinet appointments who have brought extraordinary ability and diversity to the management of state government.

Edgar was inaugurated as the 38th Governor of Illinois on January 14, 1991.

He was elected after being endorsed by almost every major newspaper in the state on the basis of a widely acclaimed

-more-

record in public service -- including a crackdown on drunk driving that saved thousands of lives on Illinois highways while he was Secretary of State.

Edgar also used his position as Secretary to pioneer an adult literacy program that became a model for the nation. As Chairman of the Illinois Literacy Council, he marshaled support from both the public and private sectors -- from business and labor leaders, from local officials, from educators and from community organizations -- to establish volunteer tutoring programs for some of the two million Illinois adults who are functionally illiterate.

After being appointed in 1981 to fill a vacancy, Edgar won election as Secretary of State in 1982 and garnered reelection in 1986 by the largest plurality of any statewide candidate in Illinois history.

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STATEMENT OF HON. BOB MILLER, GOVERNOR

OF THE STATE OF NEVADA

Talking Points
Outline

o Mr. Chairman and Members of the Economic Development Subcommittee, I am Bob Miller, Governor of Nevada, and Lead Governor for Transportation of the National Governors Association. I am pleased to have the opportunity to speak to you today about meeting our nation's infrastructure needs. My remarks will focus on the need to fully fund the Intermodal Surface Transportation Efficiency Act, but I join with my fellow governors in support of increased funding for the Clean Water Act and the Community Development Block Grant. In addition, I would concur with the local officials who have appeared before you explaining the magnitude of infrastructure needs in communities around the country.

o There is an unquestioned need for increased transportation infrastructure investment. National estimates make that clear. We would have to expend $9.5 billion a year more than is currently being invested just to maintain the nation's highways at 1989 conditions. To significantly improve conditions would require more than doubling investment, from about $36 billion per year to $75 billion.

o In Nevada, the 10-year estimate of highway financing needs relative to projected income shows about $1.5 billion dollars to deal with $3 billion of need. The backlog of necessary highway repair in that total is over $300 million and can only grow larger.

o When I look at essential transportation infrastructure spending in Nevada, I start in the North with the resurfacing of Interstate 80, which connects California with Utah, and I end in the South with a bridge spanning the Colorado river which would take traffic off Hoover dam. In between we have the Las Vegas beltway, the widening of I-15 which connects California with Las Vegas, expansions at both of our major airports, an upgrading for the Reno-area railyards, and a half dozen major interchanges in the Las Vegas area, which year after year is one of the nation's fastest growing. The bill mounts through the millions, tens of millions, hundreds of millions and into the billions in a state which currently has a population of only one and a quarter million.

o None of what I am talking about is frivolous or pork. These projects are essential to serve the public and to undergrid our continued economic growth an development. Beyond the absolutely essential, we have the merely important, such as a high speed rail line between California and Nevada and a Mag-Lev people mover which combined would link the major modes of transportation in Clark County. (By the way, when Clark County inventoried its essential, ready-to-go public works projects their total cost exceeded $300 million.)

o Increasing infrastructure spending at this time would have both long-term and short-term and short-term economic payoffs. It has been estimated that a dollar spent on public infrastructure generates two to five times as much leverage on GNP as an additional dollar of private investment. A billion dollars spent on transporation infrastructure generates as many as 60,000 jobs, half within the construction industry and half within the broader economy.

o There is an effective means of delivering transportation infrastructure financing in place - the Intermodal Surface Transortation Efficiency Act. It passed to much fanfare in 1991, but as you know it has not been fully funded, the shortfall being over $4 billion this year. There would be no better way to guarantee transportation infrastructure investments that contribute to longterm economic competitiveness than to fully fund ISTEA.

o But what about the short term? Can states put more money to good use quickly. Yes and Yes are the answers provided by two surveys carried out by the American Association of State Highway and Transportation Officials. State transportation directors report that they could put an additional $8.5 billion to good use this year. About $6.5 billion of that could be devoted to ready-to-go projects, ones that could be gotten underway in 30 to 90 days. I should note that the transportation directors urge that states be provided flexibility to use the funds.

o There is no single issue on which there is a stronger consensus among governors than the need to fully fund ISTEA. At the National Governors' Associationconference which concluded this morning governors reaffirmed this commitment in passing a resolution offered by Governor Edgar and myself. Last year and the year before 50 governors signed a letter supporting full funding. The federal gas tax revenues deposited in the highway trust fund are collected for the sole purpose of financing transportation programs. Governors of both parties and from all regions believe that they should be spent.

o It is important to stress that this consensus is backed by commitment. State and local governments provided about 70% of the funding for highways in this country, a share that has been rising steadily in recent years. At its last session, Nevada's legislature raised the State's gas tax by five cents. Voters in Las Vegas and the surrounding communities that make up Clark County voted overwhelmingly in favor of paying $100 million in each of ten years to fund transportation projects.

o So what does this add up to? We have the need. The benefits in the near-term are substantial. The long-term costs of not acting are beyond calculation. The commitment is strong. The delivery mechanism is available. I urge the Congress to act and to act as quickly as possible on an infrastructure financing package that includces the full funding of ISTEA.

STATE OF NEBRASKA

EXECUTIVE SUITE
P.O. Box 94848
Lincoln, Nebraska 68509-4848
Phone (402) 471-2244

E. Benjamin Nelson
Governor

BIOGRAPHICAL SKETCH OF NEBRASKA GOVERNOR

E. BENJAMIN NELSON

Elected in 1990, Governor Ben Nelson immediately began working for his initiatives in Education, the Environment and Economic Development.

During his first 16 months in office, Nelson initiated and guided to passage a solution to the state's personal property tax crisis. The tax problem had been building for 20 years and was threatening to strangle government operations. Resolution of the problem restored confidence in, and stability to, the state's tax system.

At the same time, Nelson moved to restore fiscal responsibility to state spending. His tight reign led to a one year budget increase of less than one-half of one percent. The Governor also instituted a Strategic Budget Plan with the goal of making government more efficient and effective. Under the plan, every state agency is required to evaluate programs and priorities for a possible 10% spending cut.

Under Nelson's leadership, Nebraska has moved from 31st to 21st in Financial World magazine's "State of the States" financial health ranking. City and State magazine ranks Nebraska 2nd among all 50 states in terms of a solid financial condition.

Nelson led the way in enacting monumental environmental legislation for the state. The Governor's Environmental Trust Fund has been established and will provide needed financing for worthy environmental projects. Monies for the Trust Fund will be provided from proceeds from a statewide lottery. The lottery, proposed by the Governor and passed by state lawmakers, awaits voter approval.

Governor Nelson helped originate, and serves as Chairman of, the Governors' Ethanol Coalition, a 16-state ethanol promotion and policy group. Additionally, Nelson was selected as Vice Chair of the Midwestern Governors' Association and as Vice Chair of the National Governors' Association's Agriculture Committee.

Nelson entered the practice of law in 1972, eventually being named General Counsel, President, and Chief Executive Officer for Central National Group, a major insurance provider. He also served as Executive Vice President of the National Association of Insurance Commissioners. Nelson joined Kennedy, Holland, DeLacy & Svoboda, one of Nebraska's most prominent law firms, as Attorney-of-Counsel in 1985. He has also served as Nebraska's Director of Insurance.

Nelson earned degrees in logic, philosophy and law from the University of Nebraska. In May of 1992, he was awarded an Honorary Degree from Creighton University for his accomplishments.

Nelson was born in McCook, Nebraska in 1942 to Benjamin E. and Birdella Nelson. He is a life-long Nebraskan. The Governor and his wife Diane have four children.

GOVERNOR BOB MILLER

* Governor, State of Nevada, January, 1989 - present

* Lieutenant Governor, State of Nevada, 1987 - 1989

* Chairman-elect, Western Governors' Association, June 1992 - present

* Lead Governor on Transportation, National Governors' Association, November 1992 - present

* Chairman, National Governors' Association Legal Affairs Committee, July 1992 - present

* Past Chairman, National Governors' Association Committee on Justice and Public Safety

* Chosen by President Ronald Reagan to serve on the nine-member President's Task Force on Victims of Crime, 1982

* Elected President of the National District Attorneys Association, 1984 - 1985

* Elected President of the Nevada District Attorneys Association, 1979 and 1983

* Clark County District Attorney, 1979 - 1986. Re-elected in 1982, becoming the first Clark County District Attorney in modern history to win re-election.

* Las Vegas Township Justice of the Peace, 1975 - 1978

* First legal advisor, Las Vegas Metropolitan Police Department, 1973 - 1975

* Clark County Deputy District Attorney, 1971 - 1973

* Clark County Sheriff's Department, uniformed commissioned officer assigned to Court Services, summer 1970

* Los Angeles County Sheriff's Department, uniformed commissioned officer assigned to the Superior Court, summer 1969

* Chairman of the Board, American Cancer Society, Nevada Division, 1988 - 1990

* Juris Doctor, Loyola Law School, Los Angeles, 1971

* Bachelor of Arts in Political Science, University of Santa Clara, 1967

* Bishop Gorman High School, Las Vegas, graduated in 1963 with honors

* Born March 30, 1945, Chicago, Illinois

* Wife, Sandy, former teacher of the aurally handicapped

* Children, Ross, 16, Corrine, 15, and Megan, 3

1/93

TESTIMONY OF

THE HONORABLE E. BENJAMIN NELSON

GOVERNOR

STATE OF NEBRASKA

BEFORE THE

ECONOMIC DEVELOPMENT SUBCOMMITTEE

OF THE

PUBLIC WORKS AND TRANSPORTATION COMMITTEE

UNITED STATE HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

FEBRUARY 2, 1993

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before you today to discuss the infrastructure needs of Nebraska and the United States. I want to highlight for you some of the unique aspects of infrastructure issues in large, sparsely populated states like Nebraska.

In particular, I want to focus on the long-term benefits of basic infrastructure investments -- as well as the mounting backlog of fundamental infrastructure needs in my state.

Over one-and-a-half million people live in Nebraska, and about half of them are located in Omaha and Lincoln, in the eastern one-third of the state. There are 535 communities in Nebraska, spread across more than 77 thousand square miles. Ninety percent of our communities have less than 2500 people.

In this context, Nebraskans have a deep appreciation for the value of infrastructure to our quality of life:

* Our highway system is essential for getting our crops to market, our manufactured goods into interstate transportation, and our people from one community to another -- hundreds of miles apart.
* Our mass transit system -- although limited -- is an integral part of both our urban centers and our rural communities.
* Airports -- both large and small -- add a vital dimension to our overall transportation system.

* Community development projects -- from streets to sewers -- are a key element of our statewide economic develpment strategy.
* Wastewater treatment facilities -- adequately funded for construction and maintenance -- help protect the quality of our environment.

Like other states, Nebraska's infrastructure needs are mounting rapidly, while anticipated federal funding continues to be withheld. There are any number of planned and approved projects awaiting the resources for implementation. For example:

* Nebraska has 67.2 million dollars of impounded federal apportionments for highways -- money that we could spend tomorrow -- to accelerate implementation of our roads plan.
* There are an additional 4.2 million dollars in federal transit money -- money that we could spend tomorrow -- withheld under ISTEA.
* Nebraska has a backlog of over 26 million dollars in needed airport improvement projects awaiting federal funding-- money that we could spend tomorrow. Some of these projects date back as far as 1976.
* Wastewater and sewer needs in the 90 percent of Nebraska communities under 2500 people amount to nearly 19 million dollar-- money that we could spend tomorrow. And this figure will continue to grow as stricter environmental regulations are put in place.

Full release of authorized funds -- as well as additional investments in infrastructure -- will pay big dividends across the country. In the short term, these investments translate into jobs -- a spark that can ignite an

economy poised for recovery.

Programs are in place to make these investments without new bureaucracies. We ask that you use programs like ISTEA, CDBG, and the Clean Water Act as the mechanism to fund infrastructure improvements.

We also ask that you rely heavily on formula funding through these programs. The growing number of demonstration projects -- while addressing legitimate needs -- drains resources from states like Nebraska.

State and local government leaders -- Governors, Mayors, and State Legislators -- are united in our support for infrastructure funding through existing programs. The needs are documented, plans are on the books -- all that remains are the dollars.

I know that Congress is interested in moving quickly to get an economic stimulus package out to those in the country who are in desperate need of jobs. States, particularly, are in the best position to see that the funds provided are infused into the economy quickly and efficiently. We have the experience and the mechanism to move the money into projects and programs that mean jobs and a better life for our citizens.

In the long term, improvements in our infrastructure through new construction and maintenance will provide the foundation for sustained economic growth.

Infrastructure needs in a small state like Nebraska are unquestionably different from those in larger states -- but they are no less important. The strength of our economy, and the quality of our environment, require good roads, up-to-date treatment facilities, adequate airports, and reliable mass transit networks.

I am compelled to mention one other important matter, and that is the issue of any increase in the federal gasoline tax, or any new energy tax.

I believe that the diversion of two and a half cents of the five cent gasoline tax increase in the Budget Reconciliation Act of 1990 was wrong. That action marked the first time that gas tax revenues were siphoned off for non-transportation purposes, and that's bad public policy.

I hope that federal deficit reduction efforts will focus on reductions in spending, with any potential tax increases considered as a last resort. But if Congress moves ahead with any new energy tax, however broad-based, a significant portion should be dedicated to funding infrastructure needs, and the two and a half cents should be reclaimed. And if Congress increases the federal gasoline tax, all of that increase should go to transportation.

Mr. Chairman, I want to leave you and the other members of the panel with these thoughts. I don't believe we need any new short-term public works programs to stimulate the economy.

We already have programs in place that we know will work, programs that have been proven to be efficient and effective, programs which are based upon formulas that are fair to sparsely populated states and states with low per capita incomes.

These programs were carefully designed to meet the long-term infrastructure needs of this country. They will result in sound and lasting improvements that will provide the foundation for sustained economic growth and enhance our competitive position with respect to the rest of the world.

I urge you to accelerate and increase the funding for these existing programs, rather than setting up new, short-term programs that will waste time and money.

Along with my fellow governors, I hope that Congress moves forward quickly to enhance America's investment in its infrastructure. The actions

that you and your colleagues take in the next few weeks will lay the groundwork for prosperity into the next century.

Again, Mr. Chairman, thank you for the opportunity to present my views here today. I would also ask that my extended remarks be made a part of the record.

STATEMENT OF GOVERNOR MICHAEL SULLIVAN

BEFORE THE

HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

FEBRUARY 2, 1993

GOOD AFTERNOON, CHAIRMAN WISE AND MEMBERS OF THE SUBCOMMITTEE. I AM PLEASED TO HAVE THIS OPPORTUNITY TO DISCUSS THE CRITICAL NEED FOR INVESTMENT IN THE NATION'S CLEAN WATER INFRASTRUCTURE, AND TO ADVOCATE INCLUSION OF WATER INFRASTRUCTURE FUNDING IN ANY ECONOMIC STIMULUS PACKAGE. I AM HERE REPRESENTING BOTH THE NATIONAL GOVERNORS' ASSOCIATION AS THE CHAIR OF ITS COMMITTEE ON NATURAL RESOURCES, AND THE STATE OF WYOMING.

NO ONE DOUBTS THAT THE COST OF CLEAN WATER IN THE 1990S WILL BE HIGH. A 1990 EPA NEEDS ASSESSMENT ESTIMATED THAT INFRASTRUCTURE NECESSARY TO MEET THE GOALS OF THE CLEAN WATER ACT WILL COST $110.6 BILLION THROUGH THE YEAR 2010. A 1992 GENERAL ACCOUNTING OFFICE STUDY PROJECTED COSTS OVER THE SAME PERIOD IN EXCESS OF $140 BILLION.

CURRENT FUNDING LEVELS ARE CLEARLY INADEQUATE IN THE FACE OF THESE PROJECTED NEEDS. THE CLEAN WATER ACT CURRENTLY AUTHORIZES ONLY $8.4 BILLION THROUGH 1994 IN CAPITALIZATION GRANTS FOR WASTEWATER INFRASTRUCTURE FINANCING THROUGH STATE REVOLVING LOAN FUNDS ESTABLISHED UNDER THE 1987 CLEAN WATER ACT AMENDMENTS.

YESTERDAY, THE NATIONAL GOVERNORS' ASSOCIATION ADOPTED POLICY RECOMMENDING $5 BILLION PER YEAR THROUGH THE YEAR 2000 IN FEDERAL CAPITALIZATION GRANTS TO THE STATE REVOLVING LOAN FUNDS.

NOTE THAT $5 BILLION PER YEAR WAS THE SUM ORIGINALLY AUTHORIZED AND APPROPRIATED FOR WASTEWATER TREATMENT INFRASTRUCTURE UNDER THE CLEAN WATER ACT OF 1972, PRIOR TO THE INTRODUCTION OF COSTLY NEW MANDATES IMPOSED ON STATES BY THE 1987 CLEAN WATER ACT AMENDMENTS. CONSIDERING THE EFFECTS OF INFLATION, THE ANNUAL FEDERAL COMMITMENT HAD BEEN REDUCED BY WELL OVER HALF IN THE LAST TWENTY YEARS. AT THE SAME TIME, THE PROGRAM IS MUCH MORE EXPENSIVE THAN IT WAS TWENTY YEARS AGO.

AS REQUIRED BY THE 1987 CLEAN WATER ACT AMENDMENTS, ALL FIFTY STATES HAVE CREATED STATE REVOLVING LOAN FUNDS FROM WHICH THEY MAY MAKE TWENTY-YEAR LOANS TO COMMUNITIES TO SUPPORT CONSTRUCTION OF WASTEWATER TREATMENT PLANTS, AND FOR CERTAIN OTHER WATER POLLUTION CONTROL PROJECTS. THE GOVERNORS SUPPORT THE CONTINUED USE OF STATE REVOLVING LOAN FUNDS AS THE PRIMARY SOURCE OF WASTEWATER INFRASTRUCTURE FINANCING. NGA OPPOSES FINANCING THROUGH DIRECT FEDERAL CONSTRUCTION GRANTS.

IN WYOMING, HAVING MET OUR NEEDS FOR CONSTRUCTION OF WASTEWATER TREATMENT FACILITIES TO MEET SECONDARY TREATMENT STANDARDS SEVERAL YEARS AGO, WE BEGAN THE UNTENABLE TASK OF ADDRESSING PROBLEMS ASSOCIATED WITH OUR NONPOINT SOURCE PROGRAM. THESE NEEDS EXCEED BY MANY TIMES THE AMOUNT OF SRF FUNDS THE STATE ANTICIPATES RECEIVING THROUGH FINAL AUTHORIZATION IN FY 1994. WE ARE ALSO NOW SEEING A RENEWED INTEREST IN SRF LOANS BY A NUMBER OF COMMUNITIES TO MEET ADDITIONAL TOXICITY STANDARDS OR FOR UPGRADES ON FACILITIES BUILT IN THE 1970S.

IN ADDITION TO THE DEMANDS FOR FUNDING UNDER THE CLEAN WATER ACT, NEARLY ALL THE COMMUNITIES IN WYOMING WILL NEED SOME FORM OF FUNDING TO MEET THE DRINKING WATER STANDARDS IMPOSED BY THE SAFE DRINKING WATER ACT. IT HAS BEEN ESTIMATED THAT NEEDS COULD WELL EXCEED $250 MILLION -- IN A STATE OF 450,000 PEOPLE -- FOR WYOMING COMMUNITIES TO COMPLY WITH THE REGULATIONS CURRENTLY IN EFFECT OR PROPOSED. GIVEN THE NEED TO MEET THESE LEGAL REQUIREMENTS AND TO PROVIDE OUR CITIZENS WITH SAFE, POTABLE WATER SUPPLIES, I SUGGEST THAT YOU ALSO CONSIDER EXPANDING THE USES OF THE SRF TO INCLUDE COMPLIANCE WITH THE SAFE DRINKING

WATER ACT.

THE SRF PROGRAM IS AN EXCELLENT EXAMPLE OF EFFICIENT GOVERNMENT INVESTMENT. SRFS ALLOW STATES FLEXIBILITY TO TARGET PRIORITY NEEDS AND PROVIDE INCENTIVES TO LOCAL GOVERNMENT TO REDUCE COSTS AND DEVELOP APPROPRIATE USER FEE SYSTEMS. REVOLVING AT THE STATE LEVEL, SRFS HAVE A MULTIPLIER EFFECT THAT CAN LEVERAGE TWO TO FIVE TIMES THE ORIGINAL INVESTMENT THROUGH BOND ISSUANCE AND LOAN REPAYMENT. IN CONTRAST, DIRECT FEDERAL GRANTS DISCOURAGE LOCAL INITIATIVE AND MAY REWARD NONCOMPLIANCE.

WASTEWATER INFRASTRUCTURE FINANCING IS BOTH AN EXCELLENT SHORT-TERM ECONOMIC STIMULUS AND A VITAL INVESTMENT IN THE LONG-TERM STRENGTH OF OUR ECONOMY. WASTEWATER TREATMENT CONSTRUCTION IS LABOR INTENSIVE AND CREATES MORE THAN 60,000 JOBS PER BILLION DOLLARS SPENT. THE SRFS COULD QUICKLY ALLOCATE NEW FUNDS PROVIDED FOR ECONOMIC STIMULUS. THE ASSOCIATION OF STATE AND INTERSTATE WATER POLLUTION CONTROL ADMINISTRATORS HAS DOCUMENTED OVER $10 BILLION IN WASTEWATER TREATMENT PROJECTS READY TO MOVE IMMEDIATELY TO CONSTRUCTION. A WAIVER OF THE TWENTY PERCENT STATE MATCH REQUIREMENT FOR ANY SUPPLEMENTAL APPROPRIATION WILL INSURE IMMEDIATE INVESTMENT.

PERHAPS MORE IMPORTANTLY, OVER THE LONG TERM ECONOMISTS NOTE A STRONG CORRELATION BETWEEN INVESTMENT IN PUBLIC INFRASTRUCTURE AND PRIVATE SECTOR PRODUCTIVITY. WASTEWATER INFRASTRUCTURE INVESTMENT RAISES THE RATE OF RETURN ON PRIVATE INVESTMENT, AND ACTS AS AN IMPETUS TO PRIVATE INVESTMENT. YESTERDAY, THE GOVERNORS HEARD OF CONCERNS IN THE BUSINESS COMMUNITY THAT THE RISING CLEAN WATER COSTS BORNE BY RATEPAYERS DUE TO INSUFFICIENT PUBLIC INVESTMENT ARE A SIGNIFICANT DRAG ON ECONOMIC DEVELOPMENT IN MANY PARTS OF THE COUNTRY.

FINALLY, IN ADDITION TO OUR ECONOMIC CONSIDERATIONS TODAY, I STRESS THAT THE ENVIRONMENTAL CONSEQUENCES OF INFERIOR INVESTMENT IN WATER INFRASTRUCTURE ARE SEVERE. NOT ONLY WILL PROGRESS TOWARD MEETING THE GOALS OF THE CLEAN WATER

ACT STOP SHORT, BUT WE MAY EVEN WITNESS DEGRADATION IN WHAT WE HAVE ACHIEVED THUS FAR. AND WE STILL HAVE A LONG WAY TO GO. SERIOUS WATER QUALITY PROBLEMS REMAIN. THIRTY-EIGHT PERCENT OF STREAM MILES FALL SHORT OF CLEAN WATER ACT STANDARDS. COASTAL AND MARINE WATERS ARE SEVERELY DEGRADED IN MANY AREAS, AND ALMOST HALF OUR LAKES ARE IMPAIRED OR THREATENED.

MAINTAINING AND EXPANDING OUR WATER INFRASTRUCTURE TO PROTECT OUR ENVIRONMENT AND OUR ECONOMY SHOULD BE A PRIORITY OVER THE NEXT DECADE. AMERICA SURELY CANNOT AFFORD TO LOSE ITS WATER RESOURCES. A SUBSTANTIAL FEDERAL INVESTMENT THROUGH THE STATE REVOLVING LOAN FUNDS IS THE BEST WAY TO MAKE SURE THAT WE DON'T.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, THANK YOU FOR THE OPPORTUNITY TO TESTIFY TODAY. I AM HAPPY TO ANSWER ANY QUESTIONS AT THIS TIME.

State of Rhode Island and Providence Plantations

EXECUTIVE CHAMBER, PROVIDENCE

Bruce Sundlun

Governor

R.I. Governor Bruce Sundlun's Testimony Delivered Before the House Public Works Subcommittee on Economic Development

Tuesday, February 2, 1993

Twenty-five months ago, I took office to find a state laid low by a regional recession and a local depression. As if this wasn't bad enough, the situation was further complicated by extensive defense industry cutbacks which forced our largest employer, Electric Boat, to lay off thousands of workers.

As a result of this, Rhode Island's unemployment rate lurched to 9 percent. Those hard[illegible]ere in the construction trades industry. In fact in just a two-year period -- from June of 1990 to June of 1992 -- it is estimated that New England lost 30 percent of its construction jobs.

And all of this took place right smack in the middle of a credit union crisis which occurred when the collapse of our private insurer forced me to close 45 banking institutions.

That is why I am most grateful for the opportunity to appear before you today. Ladies and gentlemen of the committee, we desperately need the help you have within your power to provide through your flexible funding of infrastructure programs.

I can personally testify to the usefulness of these programs. In Rhode Island, we've been priming the pump for two years and we've created thousands of jobs and begun to rebuild our battered infrastructure.

We're building an airport, a convention center and relocating Route 95. And we've put out more road and bridge work than the state has seen in years through our RRRprogram and our CHIPS program.

-- more --

By putting more money into infrastructure programs, you kill two birds with one stone. First, it's a short-term shot-in-the-arm for the economy -- you create jobs and inject money into the economy. Second, there isn't a state in the country whose infrastructure isn't crumbling. A lot of these projects were built in the days of the WPA and are badly in need of repair. So the projects you build and the repairs you make provide better service to the public.

However, in any federal infrastructure program, the Clinton Administration should allocate monies to projects that are already through the design phase, projects that only need the allocation of funds and the solicitation of contract bids. Then you can put people to work in 60 to 90 days.

In Rhode Island, we have a list of projects we could immediately begin work on.

For instance, Rhode Island's greatest asset is Narragansett Bay -- we've built a good part of our economy around tourists who come each summer to enjoy this bay. But the bay is often the victim of sewage overflow. Federal funds could help us protect this vital asset by constructing combined sewer overflows.

Special consideration should be given to funding environmental infrastructure programs such as water system upgrades, and meeting safe drinking water and clean water act requirements.

Like many older urban areas, particularly in the Northeast, Rhode Island's water system is antiquated. We found out just how antiquated last summer when three communities were forced to resort to bottled water for several months after contaminants were found in the water systems. The fault was simply pumps that had been in the ground for more than 100 years.

We could also use federal funds to improve the intermodal transportation system in our state. One of our main economic development anchors is the Quonset Point Industrial Park. This park is a model of how a fully intermodal transportation system can be an asset to an industrial park. With its airport, roadways, a shipping port and a rail system, Quonset Point is quickly growing into a viable industrial park. But the freight rail system is only operating at 50 percent of its capacity. Federal dollars could help us bring this system up to 100 percent and enable us to attract even more business from such industries as the automobile industry.

This program could also help us revitalize our inner cities. I live in a city state where the urban centers are in desperate need of rebuilding.

For too many years, the federal government has ignored our inner cities. Our inner cities need rebuilding -- economically, spiritually and physically.

-- more --

That rebuilding could begin with increased federal funding of the community development block program.

Rhode Island is a small state, but its needs in the inner cities are typical. Our problems are no different than New York's Chicago's, Detroit's, Philadelphia's or perhaps even Charleston's. In 1991 alone, Rhode Island could have used twice the amount of money we had available for the construction of affordable housing and community development.

Whether you realize it or not, the Northeast is seeing for the first time in years an influx of immigrants - Asians, Hispanics - and we don't have the facilities to provide them with adequate housing.

With increased funding, we could finally target assistance to the neighborhoods that need it the most. We could give them enough money to comprehensively address the problems -- In short, we could treat the whole problem.

We could construct community social and health centers. We could build and revitalize affordable housing. And we could provide companies with incentives to hire low- and moderate-income workers in these neighborhoods.

The states are doing all they can to shape their long-term economic futures. But we need help in the short term. We can't wait the five or 10 years it will take to put our economies back together. We need your help for now -- if we are ever to have a chance at the future.

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GOVERNOR BRUCE SUNDLUN
Biography

Born: Providence, Rhode Island, January 19, 1920

Education: B.A., Williams College, 1946; U.S. Air Force Command and Staff School, 1948; LL.B. Harvard Law School, 1949. Honorary Degrees: Bryant College, 1980; Roger Williams College, 1980.

Legal: Asst. U.S. Attorney, Washington, D.C., 1949-51; Special Assistant to U.S. Attorney General, Department of Justice Civil Division, 1951-54. Founded firm of Amram, Hahn & Sundlun, Washington, D.C., 1954; formed Sundlun, Tirana & Scher, 1972. Withdrew as active partner May, 1976, when named president of Outlet Company. Inactive member of Rhode Island and District of Columbia Bar.

Business: Chairman, Sundlun and Co., Providence, R.I. (1988 - January, 1991) Chairman and Chief Executive Officer, Outlet Communications, Inc., Providence, R.I., 1984-88, President, 1976-84. President, Executive Jet Aviation, Inc., Columbus, OH, 1970-76; Incorporator, Communications Satellite Corp., 1963, Director, 1963-1991; Director QuestTech, Inc., McLean, VA, 1972-1990; Director, Qintex Entertainment, Inc., McLean, VA, 1984-1990; Director, Worthington Industries, Inc., Columbus, OH, 1972-86. Member, Lloyd's of London.

Federal: Advisory Group on Aviation Goals, 1961; Chairman, Inaugural Medal Committee, Washington, D.C., 1961 and 1965; Vice Chairman, Inaugural Parade Committee, Washington, D.C., 1961; Delegate, Democratic National Convention, 1964, 1968, 1980, 1988 and 1992 (Chairman); Finance Chairman, Committee to Re-Elect Sen. Claiborne Pell, 1978 and 1984; R.I. Finance Chairman, Carter-Mondale, 1980; U.S. Air Force Academy Board of Advisers, 1980-83; Vice Chairman, Coalition of Northeast Governors, 1992; Vice Chair, Economic Development and Commerce Committee, National Governors Conference, 1992; Executive Committee, Democratic Governors Association, 1992.

Rhode Island: Rhode Island Capital Center Commission, 1980-1990; Rhode Island Legislative Pay Commission, 1980; Mayor's Advisory Committee on Finances (Providence), 1980; Vice Chairman, Providence Review Commission, 1981, Chairman, 1982-84; Delegate, Rhode Island Constitutional Convention, 1986; Providence Housing Authority, 1987, Chairman, 1987-1990; Providence School Board, 1984-1990; Democratic Candidate for Governor, 1986, 1988, 1990 and 1992. Elected Governor of Rhode Island, November 6, 1990. Reelected Governor, November 3, 1992.

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GOVERNOR BRUCE SUNDLUN - Biography
(page two)

Community/Philanthropic: Trustee, Washington Hebrew Congregation, 1966; Director, Washington International Horse Show, 1968, President, 1970-75, Trustee, 1975-1990; Director, Greater Providence Chamber of Commerce, 1976, First Vice President, 1978, President, 1978-81; President, R.I. Chamber of Commerce Federation, 1981-84; Director, New England Council, 1978, Vice Chairman, 1980, Chairman, 1981-83; Director, R.I. Urban Project, 1976, Secretary, 1978, First Vice President, 1979, Vice Chairman, 1980, Chairman, 1983; Named R.I. Commodore, 1979; President, Providence Performing Arts Center, 1978-1990; Trustee, Trinity Square Repertory Company, 1980, Chairman, Board of Trustees, 1984-89; Trustee, Temple Beth-El, Providence, 1979, Vice President, 1984, President, 1988-91; Director, Friends of Truro Synagogue, Newport, R.I., 1980-1990; Trustee, R.I. Philharmonic, 1981-88; Trustee, Providence Preservation Society, 1981, Vice President, 1986-1990; Trustee, Great Meadows Foundation, The Plains, VA, 1986-present; President, Newport, R.I. Art Museum, 1987-1990; Trustee, Miriam Hospital, 1984-1990; Named Jewish National Fund "Tree of Life Award" recipient, April, 1992.

Military: Captain, U.S. Army Air Force, 1942-45, 384th Bomb Group (H), 8th Air Force, England (shot down over Belgium in command of B-17, December 1, 1943, evaded capture, served with underground resistance and escaped to Switzerland, May, 1944 and assigned to American Embassy, Bern, to August, 1944); 3rd Ferry Group, Romulus, MI, 1944-45; Commander, 34th Troop Carrier Squadron, USAF Reserve, Hanscomb AFB, MA, 1946-51; Director/Operations, 459th Troop Carrier Wing, Andrews AFB, MD, 1954-56; Commander, 756th Troop Carrier Squadron, 1956-61; Office of Legislative Liaison, OFSECAF, 1961-66; Retired as Colonel, U.S. Air Force Reserve, 1980. Decorations: Distinguished Flying Cross, Air Medal with cluster, Purple Heart, Chavalier, Legion d'Honneur (France), Prime Minister's Medal (Israel).

Family: Married Marjorie Lee Sundlun, December 15, 1985. Three sons by previous marriage: Tracy, President, Metropolitan Athletic Congress, New York, NY; Stuart, Vice President, Sundlun and Co., New York, NY; Peter, Airline Pilot, Old Dominion Air Charter, Richmond, VA; also, Mark Santelia and Kimberly Santelia.

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NATIONAL GOVERNORS' ASSOCIATION

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THE FEDERAL DEFICIT

1. The Federal Deficit and Savings Problem

The federal deficit was $290 billion in 1992 and is projected to remain at about that level through 1996. In 1997, however, the deficit will begin to grow dramatically, increasing to $455 billion in the year 2000 and to $653 billion in 2003. Debt held by the public (not including Social Security and other trust funds) will increase from $3 trillion in 1992 to $7.5 trillion in 2003.

The major problem continues to be the growth in mandatory spending, which currently represents about two-thirds of all spending. Within mandatory spending the overwhelming growth is in the cost of health care. Medicare and Medicaid are projected to grow from $198 billion in 1992 to $365 billion in 1997 and to $672 billion in 2003. Over the next two decades, controlling the cost of health care is the key to the deficit problem. With the exception of interest on the public debt, all other categories of spending are either a constant or a declining share of gross domestic product (GDP).

While the deficit problem begins to worsen later in this decade, the problem is even more onerous in the second decade of the next century. This is due to the aging of the population, which will cause the United States to have too few workers to continue to maintain the standard of living for the growing elderly population. If current Social Security and Medicare commitments continue, spending for these two programs will grow dramatically between 1990 and 2020. These two programs will increase from 6.7 percent to 11.2 percent of GDP. Simply stated, by 2020 $1.00 of every $9.00 spent in the U.S. economy will be for Social Security and Medicare. The bottom line is that the seriousness of the deficit problem will accelerate over time unless changes are made.

The federal deficit problem alone is huge. However, the problem has been complicated by the fact that our individual savings rate has eroded from an average of 7 percent between 1960 and 1985 to an average of 4 percent since 1985. Not enough savings are being generated to accommodate the huge deficit needs of the federal government, so foreign residents, businesses, and governments have increased their holdings of U.S. debt, and U.S. corporations increasingly have been forced to look overseas to borrow for capital expansions.

2. A Call to Action

The nation's Governors call on the administration and Congress to reduce the federal deficit to zero over the next eight years. The projection of a level deficit over the next several years provides a major window of opportunity to implement a major deficit reduction plan. The potential sacrifices required by any plan will be smaller now than if nothing is done until the deficit again begins to accelerate dramatically. To implement a reduction strategy later would require more draconian cuts and revenue increases. Now is clearly the time to face this daunting challenge.

Without bold action now, the United States will continue to experience reductions in the rate of productivity increases, economic growth, real wages, and the standard of living of all Americans. The result will be further decline in the competitive position of the United States in the international economy. This will dramatically change the country's position as a world leader and it could even jeopardize our democratic institutions.

3. The Deficit Reduction Path

Reducing the deficit too quickly could force the economy into a recession. By the same token, failure to move quickly enough will undermine both the confidence of financial markets and of the American people in the seriousness of the initiative, and may cause long-run interest rates to remain

high. While it is difficult to develop an optimum path for deficit reduction, an eight-year path to a zero deficit seems appropriate. (This includes the Social Security and other trust fund revenue surpluses which, in 1994, would be about $119 billion.) The longer run goal should be to attain a zero deficit, not including trust fund surpluses. This would allow the United States to begin to pay off some of the accumulated debt. Such an approach would hold the next two administrations and the next four Congresses accountable. If it is successful, the United States would enter the next century with this critical problem resolved.

In crafting a response to the deficit dilemma, three points are crucial. First, care must be exercised to implement the deficit reduction strategy in a way that does not damage the current economic recovery. Second, the approach must address the issues of strategic investment and improved accountability and efficiency in government programs. While we recognize that private capital formation is the major source of productivity change, sufficient public investment must parallel the private investment. Specifically, the share of the federal budget devoted to infrastructure, education, job training, and research and development must be increased. Any economic stimulus package implemented by the administration must be part of a long-term strategy that maintains a commitment to deficit reduction. Third, the federal government must act in concert with state and local governments, and not act unilaterally to mandate state government and local assumption of unavoidable costs. It is also important for the Office of Management and Budget to move forward in adopting appropriate accounting procedures so that the true cost of programs is clearly known to the public. The President should have line-item veto authority or enhanced rescission power.

4. **General Guidelines for Deficit Reduction**

As the new administration and Congress begin to design a major deficit reduction plan, it is important that everything be on the table. The nation's Governors are ready to back a strategy that both shares the sacrifices and pain, and changes the direction of many entitlement programs. The following elements compose such a deficit reduction plan. There may be other acceptable approaches. Any plan with the potential for success would, however, involve similarly tough decisions.

4.1 **Domestic Discretionary Spending.** Domestic spending should be redirected toward strategic investments. This can be done by cutting domestic discretionary spending 10 percent in 1994 by eliminating or reducing programs that already have accomplished their mission, are duplicative of other programs, and are of low priority. This category then would be frozen in nominal terms over the next five years. All of the savings -- about $20 billion in 1994 -- would be reallocated to invest in infrastructure, job training, education, and research and development.

4.2 **National Defense and International Affairs.** Outlays could be reduced to the range of $280 billion by 1997, depending upon projected national security needs and the economy's ability to create jobs to ease the transition to a more civilian economy. The cuts need to be consistent with a long-run strategy to provide some funding stability to increase the efficiency of defense spending.

4.3 **Medicare and Medicaid.** Controlling federal health care spending is the nation's number one deficit reduction priority. Achieving this goal may well require changes in both eligibility and benefits. Failure to act on this component makes most other actions largely irrelevant. A cap on federal payments of Medicare and Medicaid is not appropriate because it would only shift the costs to the private sector and state and local governments. Instead, national goals should be established to reduce the rate of growth in all health care spending. Congress then should enact a managed competitive approach to meet the goals. This would include a cap on the tax deductibility of health benefits for both employees and employers. It also would include insurance and tort reform and outcomes research at the federal level. States would be required to set up agencies to assist businesses to purchase insurance.

4.4 **Social Security.** There must be a major focus on addressing the spending explosion that will occur when the post-World War II baby boomers begin to retire. People are living longer and the population drawing Social Security is growing faster while the population supporting Social Security is shrinking. We must make the necessary long-range changes to ensure Social Security's availability.

4.5 **Other Entitlements.** This category of spending would be capped, but the caps would allow for some increases in the population or labor force as well as inflation. It also might be necessary to adjust the caps during an economic downturn. Congressional authorizing committees would be obligated to

change the benefit levels to meet the caps, and to avoid shifting costs to state or local governments or the private sector. In addition, federal retirement programs should be adjusted gradually to reflect current actuarial tables.

4.6 **Revenues**. Revenues, like all spending, needs to be on the table. The spending reductions must be in place before any revenue increases can be considered. However, any revenue increase could only become effective if it were enacted as part of a 5-year spending reduction package. The Governors would recommend that any revenue increases be limited to no more than $1.00 for every $2.75 of net permanent spending reduction.

5. **Conclusion**

Both the mix of federal spending and the structure of the current tax system tend to contribute public and private underinvestment in the U.S. economy. However, the overriding problem is a huge and rapidly growing federal deficit that maintains high long-term interest rates that limit private capital formation. While this is a major problem today, it will be cataclysmic by 2010 when those born in the post-World War II baby boom begin to retire. It is clear that the administration and Congress must agree on a major long-run deficit reduction strategy to erase the deficit. It is critical to act now to take advantage of the short-run leveling of the deficit. To wait will only make the problem worse, and the hard choices more difficult. It is clear that some pain and sacrifice will be required, but sharing it equally can get the job done.

Time limited (effective February 1993-February 1995).
Adopted February 2, 1993.

NATIONAL GOVERNORS' ASSOCIATION

John Ashcroft
Governor of Missouri
Chairman

Roy Romer
Governor of Colorado
Vice Chairman

Raymond C. Scheppach
Executive Director

Hall of the States
444 North Capitol Street
Washington, D.C. 20001-1572
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March 12, 1992

Honorable Robert C. Byrd
Chairman
Senate Appropriations Committee

Honorable Mark O. Hatfield
Ranking Republican
Senate Appropriations Committee

Honorable Frank R. Lautenberg
Chairman
Transportation Appropriations

Honorable Alfonse M. D'Amato
Ranking Republican
Transportation Appropriations

Honorable Jim Sasser
Chairman
Senate Budget Committee

Honorable Pete V. Domenici
Ranking Republican
Senate Budget Committee

Honorable Jamie L. Whitten
Chairman
House Appropriations Committee

Honorable Joseph M. McDade
Ranking Republican
House Appropriations Committee

Honorable William Lehman
Chairman
Transportation Appropriations

Honorable Lawrence Coughlin
Ranking Republican
Transportation Appropriations

Honorable Leon E. Panetta
Chairman
House Budget Committee

Honorable Willis D. Gradison, Jr.
Ranking Republican
House Budget Committee

Dear Chairmen and Ranking Members:

The landmark Intermodal Surface Transportation Efficiency Act (ISTEA) enacted overwhelmingly last year represents a major commitment to maintaining and improving our transportation infrastructure. Unfortunately, there are indications that the commitment is being eroded. We are writing to urge your support to fully fund ISTEA.

The enclosed resolution calling for full funding of surface transportation programs in 1992 and 1993 was unanimously passed at the National Governors' Association Winter Meeting several weeks ago.

Of immediate concern is the restoration of the highway obligation ceiling for 1992 to the authorized level. It is imperative that the $1.1 billion in authorized funds be returned to states as soon as possible.

Your leadership regarding transportation financing continues to be of great importance to states. We share your commitment to expanding investment in transportation infrastructure as part of the overall effort to strengthen the nation's economy.

Your assistance in fully funding the ISTEA and correcting the $1.1 billion shortfall in 1992 will be greatly appreciated.

Sincerely,

Tommy G. Thompson
Governor Tommy G. Thompson
Wisconsin

Gaston Caperton
Governor Gaston Caperton
West Virginia

Bob Miller
Governor Bob Miller
Nevada

J Florio
Governor Jim Florio
New Jersey

Mario M Cuomo
Governor Mario M. Cuomo
New York

John R McKernan Jr.
Governor John R. McKernan Jr.
Maine

William Donald Schaefer
Governor William Donald Schaefer
Maryland

George V. Voinovich
Governor George V. Voinovich
Ohio

Carroll A. Campbell Jr.
Governor Carroll A. Campbell Jr.
South Carolina

David Walters
Governor David Walters
Oklahoma

Pete Wilson
Governor Pete Wilson
California

Stan Stephens
Governor Stan Stephens
Montana

Governor Booth Gardner
Washington

Governor Judd Gregg
New Hampshire

Governor E. Benjamin Nelson
Nebraska

Governor Roy Romer
Colorado

Governor Joseph F. Ada
Guam

Governor Bill Clinton
Arkansas

Governor Lawton Chiles
Florida

Governor John Ashcroft
Missouri

Governor Jim Edgar
Illinois

Governor Robert P. Casey
Pennsylvania

Governor Norman H. Bangerter
Utah

Governor James G. Martin
North Carolina

Governor Howard Dean
Vermont

Governor Fife Symington
Arizona

Governor Cecil D. Andrus
Idaho

Governor Peter T. Coleman
American Samoa

Governor Brereton C. Jones Kentucky	Governor Michael J. Sullivan Wyoming
Governor Bruce King New Mexico	Governor Kirk Fordice Mississippi
Governor Ann W. Richards Texas	Governor Edwin W. Edwards Louisiana

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RESOLUTION*
Adopted 2/4/92

SURFACE TRANSPORTATION FINANCING

CONGRESS ADOPTED LANDMARK SURFACE TRANSPORTATION AUTHORIZATION LEGISLATION LAST YEAR. THE PRESIDENT SIGNED THE NEW LEGISLATION INTO LAW AND HAS URGED THE STATES TO EXPEDITIOUSLY SPEND THE FUNDS MADE AVAILABLE TO PROVIDE JOBS IN A PERIOD OF ECONOMIC STAGNATION.

THE NATIONAL GOVERNORS' ASSOCIATION CALLS UPON CONGRESS TO PROVIDE SUFFICIENT FUNDS SO THAT THE STATES CAN USE THE FULL AMOUNTS AUTHORIZED FOR SURFACE TRANSPORTATION UNDER THE NEW LEGISLATION IN FISCAL YEARS 1992 AND 1993.

*based upon Policy F-1

NATIONAL GOVERNORS' ASSOCIATION

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Backgrounder

OFFICE OF PUBLIC AFFAIRS
JANUARY 30, 1993 (14-93)
CONTACT: Rae Young Bond, 202/624-5898
202/628-6876 (Jan. 30 - Feb. 2)

STATES CONTINUE TO FACE TOUGH ECONOMIC TIMES
Limited Resources and Spiraling Demands Expected in the 1990s

WASHINGTON, D.C. -- States continue to be hard hit by the lagging U.S. economy. Although the recession is officially over, states are still struggling with the weak economy. This recovery period is not expected to resemble the 1980s, when state revenue growth was strong and plenty of money was available for new programs. Instead, the 1990s continue to be a period of limited resources and adjustment.

The states are being hit hard again this year by very slow revenue growth and mounting pressures for more spending, especially for Medicaid. States are facing several signs that warn of continued rough fiscal waters ahead. These economic warning signs strongly suggest that:

- economic growth will lag behind the 1980s;
- state revenues will not keep pace with economic growth as sales and corporate tax revenues slow; and
- state spending will continue to explode, particularly for entitlements and other mandatory spending in health care and corrections, and for an expanding array of long-run investment needs, such as in education and transportation.

FISCAL PRESSURES ON THE STATES

Economic Downturn. States will continue to experience significant fiscal pressure even when the economy rebounds. Economic changes and international competition will combine to slow the favorable impact on state revenues. Although the service sector is the fastest growing area of consumer spending, few states have a sales tax on services so state revenues will not increase as fast as total consumer spending.

Furthermore, slower economic growth, coupled with intensifying overseas competition, will squeeze corporate profits. That, in turn,

-more-

will slow revenues from corporate profit taxes. Without tax increases, overall state revenues will lag behind economic growth.

As the Congressional Budget Office noted in its August 1992 Economic and Budget Outlook, "The economy must struggle to work off various imbalances that developed during the 1980s." These imbalances include high office and commercial vacancy rates, the shrinking defense industry, decreased spending by debt-laden families, and workforce reductions in the private sector. Factors such as the sizable federal budget deficit also exert their toll on the economy. Even if the pace of economic growth were to quicken, the outlook for state budgets in fiscal 1993 would not change dramatically.

The barrage of recent economic statistics reinforces the situation of sluggish state finances. As the Commerce Department's Bureau of Economic Analysis recently reported, the 1991 per capita gain in personal income of 2.4 percent was the lowest in 30 years. After adjusting for inflation, per capita personal income for 1991 actually declined by 2 percent. Feeble personal growth translates into weak revenue yield from personal income taxes and lowers consumer spending. State revenues, mirroring the national economy, are reflecting this slow growth.

Fiscal 1992 budgets assumed a more robust growth in keeping with the projections of all major forecasters. Reflecting their concerns about the reliability of these forecasts for estimating purposes, states used modest growth assumptions for fiscal 1993. While some states have reported revenues above original projections for fiscal 1993, this positive news will fall far short of solving most states' fiscal problems.

Currently, corporate profits, sales, and personal income tax revenues are all substantially below expectations. Thirty-five states were forced to cut their fiscal 1992 enacted budgets to avoid deficits.

States are in their third consecutive year with budget difficulties. States increased taxes by $10 billion and $15 billion, respectively, in fiscal 1991 and fiscal 1992, and cut spending by $7.5 billion during fiscal 1991 and cut their enacted budgets by $4.5 billion in fiscal 1992.

Several states, including Maryland and Ohio, have been forced to already reduce fiscal 1993 enacted budgets due to the weak economy. Unlike the 1981-82 period, when states went into the recession with budget surpluses of about 9 percent, today state ending balances are at their lowest levels since at least 1979. Since 49 states require balanced budgets, governors' options are limited.

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Not only are revenues lower than expected, but the demand for services such as unemployment insurance, Medicaid, and Aid to Families with Dependent Children (AFDC) has grown as unemployment increased during the downturn. Already, considerably more workers are collecting unemployment benefits. Caseloads for Medicaid and AFDC have increased dramatically. The current demand for these services also has a long-term impact, as it consumes resources that otherwise could be invested in education, training, and other human development programs that contribute to the nation's long-term economic strength.

Mandates and Cost Shifts. While the continuing economic downturn is clearly the major cause of the fiscal crisis, the federal government and the courts are contributing to the problem.

HEALTH CARE

The cost of the federal Medicaid program to the states has risen rapidly over the past decade: in 1980 Medicaid spending accounted for 9 percent of state budgets overall, but in 1990 it accounted for nearly 14 percent of all state spending.

In 1991 alone, state Medicaid spending increased by 20 percent. By 1995, it is estimated that states will spend $81 billion a year on Medicaid, compared with the $31.4 billion they spent in fiscal 1990. Between 1991 and 1996, total Medicaid spending is projected to increase by $123 billion -- costing the federal government an extra $70 billion and states $53 billion more a year.

Federal mandates enacted since 1987 will cost states more than $5.4 billion in fiscal 1991 and 1992, and provisions of the Omnibus Budget Reconciliation Act of 1990 are estimated to cost states $3.0 billion during fiscal 1991 to 1995. The total state cost of all of these mandates is estimated to be $17.4 billion over five years (through 1995).

In fiscal 1991, Medicaid expansions included $916 million from the provisions left in the catastrophic health care legislation; $461 million to cover new nursing home regulations; $479 million for Medicaid coverage for pregnant women and children up to age 6 up to 133 percent of poverty and for early and periodic screening, diagnostic, and treatment services; and $199 million for Medicaid costs relating to welfare reform.

The $916 million state cost for the catastrophic legislation provisions is an interesting case. When Congress drafted the catastrophic health care bill, it expanded Medicaid coverage of Medicare recipients, anticipating that new

-more-

Medicare benefits would offset the additional costs to states. Congress later repealed the catastrophic care coverage that would have offset state costs, but left the new state requirements in place.

In addition to matching requirements in Medicaid, states also provide matching funds for the Maternal and Child Health Care Block Grant. The federal government appropriated $665 million for fiscal 1993.

CORRECTIONS

Corrections is another area where states must increase funding. In fiscal 1990, 41 states and two territories were under court orders to relieve prison overcrowding or improve conditions. But at the same time, more offenders -- especially those who commit drug offenses or violent crimes -- are being convicted. States are exploring alternative ways to deal with the increasing number of offenders, and the U.S. Justice Department has agreed to help states in seeking revisions in some court orders. However, the public still wants most criminals to be incarcerated. State spending for corrections grew 11.4 percent from 1990 to 1991. In 1990:

- 62 new institutions were opened in 23 states for a total of 36,373 bed spaces, at an average construction cost of $47,531 per bed space;
- 38 states reported 87,664 bed spaces under construction for a cost of more than $3.2 billion;
- states spent more than $18.1 billion to operate prisons; and
- 26 "boot camps" were in operation in 19 states.

EDUCATION

Education expenditures at the state level continue to increase and are expected to grow throughout the decade as school enrollments continue to grow. This comes during a period when states are encouraging systemic school reform and continuing their efforts to achieve the national education goals.

- Between 1984 and 1989, average elementary and secondary education spending per pupil grew by 22.7 percent (real growth based on the purchasing power of the dollar in 1990-91). In constant dollars, current expenditures in education are expected to increase by 37 percent between 1990-91 and 2001-02.
- In 1988-89, public elementary and secondary schools spent over $189 billion on current school operations, including operating expenses, capital outlay, and interest on debt. The average per pupil expenditure during 1988-89 was $4,639.

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- During 1988-89, elementary and secondary schools received 47.7 percent of their funds from state sources, 46.1 percent from local sources, and 6.2 percent from the federal government. Federal support of education was on a slow decline throughout most of the 1980s, ranging from 9.8 percent of total education revenues in 1980 to 6.2 percent in 1989.

- Total fall enrollment in elementary and secondary schools is expected to rise from 41.6 million in 1991 to 45.1 million in 1996 and 46.8 million in 2001.

- A recent survey of school superintendents by the American Association of School Administrators indicated that more than 5 million students attend school in inadequate, substandard buildings. The same survey noted that the public schools will face energy bills that will increase by approximately $490 million during 1991.

TRANSPORTATION

State and local governments currently pay for the lion's share of the nation's surface transportation infrastructure. In recent years, spending from the federal trust funds and general fund appropriations have not kept pace with expenditures by state and local governments.

- State and local governments financed 80 percent of the $93.2 billion spent on surface transportation in 1991.

- State financial support for mass transit has surpassed federal aid for the last five years, with state support reaching $5.2 billion in 1991 compared with $3.3 billion in federal funds.

- Between 1980 and 1990, state and local spending on highways increased by nearly 90 percent, while federal spending increased by only 52 percent. Forty-seven states increased gas taxes during the decade.

- Between 1986 and 1990, federal spending on highways dropped 1.5 percent, while state expenditures increased almost 30 percent.

In response to the lag in federal infrastructure investment and the growing unexpended balances in transportation trust funds, Congress increased federal funding in the surface transportation bill. The six-year, $155 billion Intermodal Surface Transportation Efficiency Act (ISTEA) enacted in December 1991 authorizes an increase in the federal funding available to states. The new law proposes about $20 billion annually for highways and bridges and about $5 billion a year for mass transit systems. Actual appropriations fall $3.9 billion short of the $25.7 billion enacted in ISTEA.

As NGA recommended, ISTEA roughly maintained the existing federal and state/local matching ratios. If all apportioned federal funds are matched over the six years, states and localities would spend a minimum of $30 billion in matching funds on federal highway, bridge, and mass transit projects.

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Over the long term, the new legislation also will succeed in spending down much of the unexpended balance in the federal Highway Trust Fund, subject to annual congressional action on obligation ceilings in annual appropriations bills. Revenues credited to the fund have fallen short of projections because of economic conditions, slowing growth in the trust fund balance.

The budget agreement passed late in the 101st Congress increased motor fuel taxes by five cents, with 50 percent dedicated to the transportation trust fund and 50 percent diverted for deficit reduction. The new surface transportation legislation extends all current trust fund taxes, including 2.5 cents of last year's federal motor fuel taxes, but assumes the termination of the 2.5 cents to the general fund after 1995. A recent report released by the General Accounting Office identified extension of this 2.5 cent tax for deposit to the Highway Trust Fund as one option for addressing lower than projected trust fund income.

ENVIRONMENTAL PROGRAMS

The growing costs of environmental protection also represent a significant demand on state budgets. Overall, the contribution of the U.S. Environmental Protection Agency (EPA) to state environmental protection programs has been shrinking. Between 1979 and 1992, federal support for wastewater treatment programs declined by more than one-half in nominal dollars. The Clean Water Act was funded at $5 billion in 1980 and $2.5 billion in 1992. Federal support for managing environmental programs has declined by more than one-third in real terms over the same period.

Meanwhile, federal mandates have required substantial increases in state spending on the environment. Between 1982 and 1986, state support of programs in the critical areas of air, water, and waste management increased by more than 40 percent, to over $721 million. Annual costs to states of implementing the 1990 Clean Air Act amendments could reach as high as $600 million. This estimate does not account for amounts collected through air permit fees.

EPA conservatively estimates the cost of compliance with its new landfill rules to exceed $330 million annually for landfill operators. Most of these costs will be passed on to local governments. State administration of the drinking water programs will cost more than $450 million per year by 1995, according to EPA.

Finally, in the area of water infrastructure, the federal commitment will cover only a small fraction of the costs of necessary investment in wastewater treatment plants. According to EPA's estimate, wastewater construction needed

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to meet the goals and requirements of the Clean Water Act totals more than $110 billion through the year 2010, while the total federal commitment to capitalize state revolving loan funds for meeting these needs stands at just $8.4 billion. Many of the costs for all the environmental programs identified above ultimately will fall onto state and local governments as well as citizens.

INTERGOVERNMENTAL FUNDING SHIFTS

The economic landscape has changed considerably since the nation last faced a recession, particularly in intergovernmental relations. Major changes in funding patterns and continual growth in federal mandates have had a massive impact on state budgets.

Since the last recession, the federal government has ended the broad-based federal grants in aid that once helped fund basic governmental services and provide countercyclical assistance. In 1981, these grants provided $12.0 billion to state and local governments, funding that is no longer available. This decrease in aid has been paralleled by dramatic growth in federal programs that require states to pay a matching share. In 1992, states spent $37 billion more on the Medicaid program than they did 10 years earlier.

Although federal grants in aid to state and local governments have increased from $105.8 billion to $192 billion between 1981 and 1992, most of this "increase" consists of the federal share of individual entitlement programs such as Medicaid and AFDC, which require state matching payments. Funding for programs other than Medicaid and AFDC has only increased from $80 billion to $102 billion since 1981. Factoring in inflation, this is a net decrease of 16 percent over the period.

CONCLUSION

Under pressure from federal mandates and rapid spending increases in Medicaid and other health programs, and facing increasing demands in education, corrections, transportation, and other areas, states want to prevent further cuts in federal aid and increase flexibility in their use federal of funds.

The governors believe that government at every level needs to maintain its investment in human infrastructure programs such as education, nutrition, and health care, and in physical infrastructure such as highways and bridges. In addition to meeting basic human needs and protecting the environment, government should consider ways to encourage the sustained economic growth that is critical to the nation's health.

ADDITION TO THE RECORD

TOMMY G. THOMPSON

Governor
State of Wisconsin

Testimony of Wisconsin Governor Tommy G. Thompson
Delivered to the Subcommittee on Economic Development
February 16, 1993

Mr. Chairman and members of the Subcommittee on Economic Development. I appreciate the opportunity to submit testimony that addresses the important topic of these hearings, "Investing in America's Infrastructure: Short and Long Term Strategies."

As the Clinton Administration prepares an economic stimulus package for our country, it will be looking for the most efficient means of delivering jobs that will improve our standard of living. I know that there has been considerable discussion of infrastructure projects as part of that package and that there is concern that infrastructure projects may not be economically justified or provide immediate results. In a moment, I will outline a series of infrastructure projects in Wisconsin that are critical to the state and can be undertaken quickly.

While short-term stimulus is necessary, the nation's governors believe that a long-term investment strategy must also be developed. For this reason, we urge the Administration and Congress to increase investment in existing programs such as the Intermodal Surface Transportation Efficiency Act (ISTEA), The Clean Water State Revolving Loan Fund, and the Community Development Block Grant Program. These programs have the desired effect of producing long-term employment and efficient investment of funds.

Wisconsin is prepared to begin development projects provided that the federal government invests in the programs I have just mentioned. Wisconsin is ready to let to contract before July 1, 1993, an additional $75 million in highway construction work beyond what we were already committed to with Fiscal Year 1993 federal highway funding. These represent a wide variety of improvement projects that had been developed in the expectation that ISTEA would be fully funded in FY93.

However, our ability to deliver these projects in the proposed time frame is dependent on inclusion in the economic stimulus legislation of two important provisions:

1. Federal highway funding must not be limited to states' existing categories of apportionment balances. Either new apportionments with broad eligibility should be provided, or provisions should be enacted to permit full transferability of any existing balance to any other category to ensure that whatever projects are ready can be funded.

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2. Workable provisions must be provided to permit 100 percent federal funding of projects in the stimulus package. At this stage in the state and local fiscal years, it is difficult to provide additional funds for a non federal share without serious disruptions in other programs. The provision for waiver of the federal share in current law is onerous and unworkable, as evidenced by the fact that few states or localities have made use of the provision, despite their difficulty in raising the non-federal share.

I have recently sent a letter to Transportation Secretary Federico Pena presenting this information as well as other infrastructure proposals from Wisconsin.

The Community Development Block Grant program has been used to effectively assist business all across the state of Wisconsin. The City of Broadhead has used the program to provide sewer improvements that allowed new business to relocate in that city's industrial park. Hartford, Wisconsin has used a grant to expand Motion Controls Inc., a manufacturing facility in that city, providing jobs and encouraging increased private investment. In 1992, economic development awards in Wisconsin totaled more than $4 million. They created or retained over 250 jobs and leveraged in excess of $7.5 million in private investment. This program is the economic stimulus we are seeking.

The National Governors Association has recommended that the state revolving loan fund receive federal capitalization grants of $5 billion per year doubling the current federal investment and returning the level of federal support to its 1980 level. Considering the effects of inflation, the 1980 level is much higher than the current NGA recommendation. This program will be most effective when the federal government assists states in paying for some of the most costly federal mandates.

I agree with my fellow governors that have testified before this subcommittee that these programs should be a priority in any economic development policy that is enacted. They will provide the most immediate and tangible results to improve our economy combined with long-term investments for the country's future.

Tommy G. Thompson

2/16/93

INVESTING IN AMERICA'S INFRASTRUCTURE: SHORT- AND LONG-TERM STRATEGIES

WEDNESDAY, FEBRUARY 3, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT,
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
Washington, DC.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 2167, Rayburn House Office Building, Hon. Robert E. Wise, Jr. (chairman of the subcommittee) presiding.

Mr. WISE. This hearing of the Subcommittee on Economic Development Committee on Public Works and Transportation will come to order.

This is the third day in a series of hearings that have been held on investing in America's infrastructure, short- and long-term strategies. We have had testimony on the first day from a panel of economists, from a panel of mayors, and we heard testimony yesterday from the representatives of the National Governors Association, and today I think we are coming to the people we definitely ought to be hearing from as the new Administration and this Congress explore what should be the role of America's infrastructure and the investment in that. Today we hear from Members of Congress.

I wanted, in conjunction with the Ranking Member of this subcommittee, Susan Molinari, to hold this hearing because we think that Members of Congress on both sides of the aisle have a lot to bring to this discussion, and as legislation will undoubtedly move forward in the next few weeks, it is certainly important we hear as regards the infrastructure piece of it what Members of Congress are recommending; what they would urge we be considering.

This subcommittee, in conjunction with the full committee, of course, will be looking carefully during the next few weeks at legislation that would have both a short-term economic stimulus effect as well as a long-term one.

We are delighted to have so many Members express interest, and before we begin and call the first panel. I would like to open it up for any opening remarks that members of the subcommittee have.

I turn, first, to Mr. Hutchinson, who has moved up quickly in the subcommittee from just a couple of weeks ago. But, of course, you had a good mentor—our predecessor, who was very, very influential here. But I turn to Mr. Hutchinson for any opening remarks he may wish to make.

Mr. HUTCHINSON. Thank you, Mr. Chairman. They tell me to press into action until Susan gets here.

I think that it has been very valuable, the testimony that we have heard. I think the input of the Governors yesterday was valuable, and as a State that has had a very active Governor in the past in the Governors Association, who has a rather prominent role in Washington, from the State of Arkansas, we value their input.

I think no one is more familiar with the infrastructure needs and the interrelationship of the Federal Government and the state in the building of the infrastructure than Members of Congress, and so I also am pleased with the interest that the membership has shown in the short-term economic stimulus package and our long-term infrastructure program, and look forward with anticipation with the contributions they are going to make today.

Thank you, Mr. Chairman.

Mr. WISE. Appreciate the gentleman's remarks.

I recognize the gentleman from South Carolina, Mr. Clyburn, for any opening remarks he might wish to make.

Mr. CLYBURN. I have none.

Mr. WISE. You will gain a high place in committee heaven for that position.

I turn to the gentleman from Georgia, Mr. Collins, for any opening remarks he might wish to make.

Mr. COLLINS. Thank you, Mr. Chairman. I will reserve my remarks for later as a witness.

Mr. WISE. You are joining Mr. Clyburn in that pantheon.

I turn to the gentleman from Michigan, Mr. Barcia.

Mr. BARCIA. Thank you, Mr. Chairman.

I have a prepared statement which I will submit to be printed in the record.

Mr. WISE. The committee will receive that statement.

[Mr. Barcia's prepared statement follows:]

STATEMENT OF HON. JAMES A. BARCIA

Mr. Chairman, I would like to thank you again for your leadership in getting such a quick start on this most important of subjects: investment in our economy. I welcome our most distinguished colleagues who appear before us today for the third in this series of hearings on infrastructure investment strategies.

If we are to address the economic distress now being faced by American citizens such as those in my 5th District of Michigan, we must act in a timely fashion. Our December state unemployment rate was 7.9 percent, with a three-month average of 8.4 percent. An 8.4 percent unemployment rate is not acceptable for my constituents, nor should it be for anyone in this country. We must provide responsible short-term, temporary relief for our unemployed citizens.

I also salute you, Mr. Chairman, for paying much-needed attention to the necessity for long-term structural changes in our economy. No short term program will address the enormous crisis presented by the disappearance of American jobs from the automobile and other manufacturing industries.

There are many communities facing tremendous hardship due to the pending closure of a military base in their area. Military and Government estimates predict that the closure of Wurtsmith Air Force Base in my district will result in a loss of 50 percent of the population and a 27 percent unemployment rate in the host town of Oscoda, and that by 1995 one-third of the households in Fosco county will be receiving social program assistance due to the loss of jobs in the area.

Short-term federal stimulus will not solve these problems. Our nation's competitiveness must be enhanced through long-term worker retraining, and government and business investment. I do not favor a strategy of throwing federal dollars and programs at the problem. These hearings represent an important first step in determining the most responsible strategy for accomplishing our goal of providing a better future for our children and a job for every American worker.

Once again, Mr. Chairman, I thank you for your leadership, and I look forward to working closely with you on these critical issues for the 103rd Congress.

Mr. WISE. I will leave the record open at this point to receive prepared statements of our colleagues.

[Statements referred to follow:]

Nick Rahall

OPENING STATEMENT
HON. NICK J. RAHALL, II (D-WV)
HEARINGS
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
February 2, 1993

Mr. Chairman, I am pleased to join with you today at these hearings to receive testimony from Governors of several states, regarding our absolute need to strengthen our economy in general and increasing the economic growth rate of this recovery period.

The Economic Development Act is but one of the several vehicles we have for moving the economy forward, by enacting a strong jobs bill tied to infrastructure needs.

As Chairman Norm Mineta has so eloquently stated: We do not accept the premise that a 2 to 3 percent growth rate, being touted now as economic recovery, is all we need to do. It isn't acceptable for the simple reason that a 2 to 3 percent growth rate in the economy produces zero-growth in jobs. If we do not create jobs, and soon, there will be no sustained economic growth in this country.

I will just reiterate -- for many have said it already and meant it -- including President Clinton -- the unemployment rate throughout America is still unacceptably high, and so we must enact a stimulus package that provides both short-term stimulus and long-term investment in order to create enough jobs to put America back to work. If we do that and do it quickly and do it well, we will increase revenues from newly employed tax-paying citizens, which will help keep the economic stimulus bill from having a serious impact on increasing the deficit.

Some increase in the deficit may be necessary in the short-term while we implement public works projects that create jobs and put people back to work and food on tables, but the end result will be long-term investment in increased productivity and performance of the economy.

Let us invest now in jobs that are ready to go. At our fingertips we not only have the two-volumes of JOBS READY TO GO produced by the U.S. Conference of Mayors last year, we as individual Members have reams of paper in our office listing specifics of jobs ready to go in our Congressional Districts. The lists of jobs ready to go in my District are the result of my own survey of my Congressional District last year, just after H.R. 4175 was introduced, a bill patterned after successful legislation enacted in 1976 and 1977 by this Committee, which created more than 370,000 jobs. The response I received from my mayors, county commissioners, local and regional planning and development agencies, and from other State/local agencies was outstanding. The projects they can get up and running within 90 days range everywhere from wastewater treatment plants and facilities to school building construction and repair. They are ready to go.

Let us invest in bricks and mortar, and in education, training and retraining, and put our people back to work.

In addition to the reauthorization of the EDA, and using it as one of the vehicles for change, for getting the country running again, we

must push for full funding of ISTEA -- and I invite you to the hearings I am planning on that subject in the coming days.

ISTEA has been underfunded by nearly $4 billion in FY 1993 -- the current fiscal year. That missing funding should be promptly restored.

Additional funding now for ISTEA will produce both near-term simulus for programs already up and running, as well as long-term investment value in roads, highways, bridges and transit programs.

And we need to address the largest ummet infrastructure need in the United States at this moment -- waste water treatment works. This need is the one most often addressed among the responses I received to my survey of projects ready to go in my District last year, when we introduced H.R. 4175. With estimates of need nationwide set at between $80 and $115 billion for waste water treatment alone, the Congress spends a little more than $2 billion under the state revolving loan fund (SRF) -- a source of funds totally unusable by poor, small rural communities with no tax base to speak of and no way to match or leverage local funds for this purpose.

It is especially difficult for people back home in our districts to understand how the Federal government, which imposed the mandated water quality standards on them, can spend only a little more than $2 billion on this need nationwide, when West Virginia alone is estimated to need $2 billion to meets its state and local needs.

While I wish we could spent the $80 to $115 billion on water resources and development projects now pending in the United States, we must spend at least $3 billion in FY 93, and $4 billion per year thereafter, which would have an immediate near-term stimulus effect, but for the most part would be long-term investment.

We need short-term stimulus funding for direct assistance to states and local entities for the construction, rehabilitation, or repair of such faciliies as public schools, libraries, drinking water systems, wastewater and stormwater pipe projects,non-federal streets, roads and bridges, city halls, courthouses, fire departments, law enforcement agencies, and the like, which are not now part of ongoing federally funded grant programs, and we should ask for at least $5 billion for this purpose during this fiscal year.

We will need new authorizing legislation in order to get the jump-start effect on the economy that we need, giving us the chance to make changes in existing programs allowing less categorization and so that funds could shift disproportionately to the types of quick start, quick to complete projects that are smaller and could be implemented on a very fast track.

We can do this and do it quickly by working closely together for the common good. I look forward to working with the Clinton Administration, the Subcommittee on Economic Development and the Committee on Public Works and Transportation in the coming weeks to design and fully develop legislation to revitalize our economy and

provide a foundation for continued economic growth, the creation and retention of jobs, and an improved quality of life for all people.

TESTIMONY OF

THE HONORABLE

DOUG APPLEGATE

REPRESENTATIVE OF THE

18TH DISTRICT OF OHIO

BEFORE THE

SUBCOMMITTEE ON

ECONOMIC DEVELOPMENT

OF THE

COMMITTEE ON

PUBLIC WORKS AND TRANSPORTATION

UNITED STATES HOUSE OF REPRESENTATIVES

GIVEN THE

THIRD DAY OF FEBRUARY, 1993

Thank you Mr. Chairman for holding this hearing and moving forward on these very important issues. The needs of this nation, both for jobs and infrastructure improvements, are well known, and I am pleased that steps are being taken to address these critical matters. I hope and believe that very shortly legislation will be brought forth to meet these needs, and we can put our nation back on track, and break out of the stagnation which is now gripping us. My Subcommittee and I stand ready to do our part to make this a reality.

I was very active in the development of the Intermodal Surface Transportation Infrastructure Act of 1991, now well known as ISTEA. From the first draft of that legislation right through conference, floor consideration and final passage, one fact stuck in my mind, and that was the fact that the approximately 150 billion dollar infrastructure investment package we were drafting would meet only about one-half of our existing surface transportation infrastructure needs.

Mr. Chairman, I'm not talking about the need for new work or grand plans for the future, I am talking about just meeting the current maintenance needs of the facilities we already have. Right now our roads, bridges, and transit systems, and in my Water Resources and Environment Subcommittee our sewers, treatment plants, and related facilities, are crumbling because we are not keeping up. We cannot continue to do business this way and remain a great, productive nation.

While we have been letting this backlog of work pile up, too many of even our highly skilled constituents have been sitting idly, suffering under the recession and persistent economic stagnation. In my own district the unemployment rate is over ten percent. Workers with valuable skills are wasting away, yet, as I just said, there is so much work we need to do.

Mr. Chairman, we must marry up this great pool of available talent with our universally recognized needs. Not only will we then be putting people back to work, and not only will we be stimulating the economy, but we will at the same time be building for our future, giving us the means to be productive and successful once more. It sure is a lot more valuable to our nation than extending unemployment benefits.

There are so many other benefits to be realized from creating infrastructure jobs. These jobs would be some of the best jobs in our economy. They are good, honest, demanding, hard-working, well-paying jobs. They are the types of jobs which pay health insurance premiums, pay mortgages instead of rent, make new car purchases possible, and even put kids through school.

It's the type of spending which puts materialmen and factories to work, and because of the nature of the needs, much of the goods purchased are American made, so we can enjoy much of the benefit at home.

I can give you an extensive list of the needs I am most familiar with, those of my own district. Crumbling everything: roads; bridges; pipes; years' old storm and flood damage; you name it. Even out-grown nearly century-old horse and fire wagon fire stations holding antique diesel powered equipment. Mr. Chairman and members of the Subcommittee, I still have people drinking and washing with rainwater collected in cisterns, the only treatment the water receives, an occasional dose of some household bleach.

Mr. Chairman, it is so obvious it is painful. The needs are clear and profound, the talent is ready, very willing and able, and the benefits are immense. All we need is the will to get the job done. Let's move forward without delay, and do what we must do. Thank you Mr. Chairman.

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OPENING STATEMENT

HONORABLE JERRY F. COSTELLO

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

INVESTING IN AMERICA'S INFRASTRUCTURE: SHORT AND LONG-TERM STRATEGIES--THE NEED FOR ECONOMIC STIMULUS

February 3, 1993

MR. CHAIRMAN, I want to thank you for calling today's hearing. This is the third in a series of hearings on Investing in America's Infrastructure: Short and Long-Term Strategies. Today we will hear from many of my distinguished colleagues who represent states from all across our nation. I welcome you here today and look forward to hearing your testimony.

My state of Illinois needs the added boost that an economic stimulus package could provide. Yesterday, I had the opportunity of listening to the testimony of our Governor, Jim Edgar. He sharpened my support of an investment package by citing examples of job growth possibilities and the need for infrastructure improvements in Illinois.

The testimony that will be presented today will help me and other members of this Subcommittee further define the need for an economic stimulus package and allow us to consider all the ideas that other Members of Congress testifying today will illustrate. Again, thank you Mr. Chairman.

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GOVERNMENT INFORMATION, JUSTICE AND AGRICULTURE

TESTIMONY BEFORE THE SUBCOMMITTEE
ON ECONOMIC DEVELOPMENT OF THE PUBLIC WORKS
AND TRANSPORTATION COMMITTEE

Prepared for hearings on:

"Investing in America's Infrastructure:
Short and Long-Term Strategy"

REPRESENTATIVE PATSY T. MINK
of Hawaii

Patsy T. Mink

Wednesday, February 3, 1993

Mr. Chairman, I appreciate this opportunity to offer my input on infrastructural investment.

Let me say at the outset how gratified I am that we have finally reached consensus on the need for a significant short term economic stimulus, as well as a long term investment strategy. It's about time.

By every indication the recession is still with us. According to the Labor Department, 98.4 million people had full-time jobs in June 1990. Last month this number had dropped to 97.5 million. That is a drop of nearly 1 million jobs in 2 and one half years. I think there is no better measure of how important it is that we take action on the economy. There is nothing more basic than holding a job, and the private sector is

simply not going to provide enough of them. The question is where will government investment have the most positive impact.

Last year, as a member of the Government Operations Committee, I worked hard in support of the Lccal Partnership Act. In doing so, I was struck by the overwhelming response from counties and municipalities all over the country. Every one of them have projects on the shelf that they are ready to implement when they get the funds. Every one of these projects will put people to work. But they are different types of projects in each locality.

Some communities need to rebuild roads or bridges, others have water or sewage systems in need of work. Still others are badly understaffed and unable to provide some of the most basic municipal services. The Local Partnership Act was far-sighted legislation because it recognized the need for flexibility -- it allowed each locality to use the funds it received to meet its own most important priorities.

I think that any short term economic stimulus package we pass should embody this same flexibility. Our local communities know best what their most pressing needs are. It would be unfortunate if we locked federal funds into programs, or sectors of the economy, that forced local communities to spend the money in areas that were not their most important priorities.

This would also be the best way to address one of our most painful contradictions of the last 12 years. Since FY 1981 direct federal financial aid to the nation's cities and counties has declined by 37%. At the same time we have increasingly shifted to them some of the major responsibilities of government. Nowhere is this more evident than in environmental policy. And no other area has seen a greater explosion of unfunded Federal mandates.

Since 1979 we have passed nine major environmental laws including RCRA, the Safe Drinking Water Act and major amendments to the Clean Air and Clean Water Acts, but the operating budget of the EPA has hardly changed. Because of these requirements, local governments are now cutting essential local services. States and localities must be able to fulfill their obligations in this regard, and there is no reason that this should not be seen as a fundamental element of our nation's infrastructure.

A flexible short term strategy would also insure that every region of the country is included. An economic stimulus package that focuses too exclusively on public works runs the risk of neglecting rural communities. But rural America is suffering from poverty and unemployment just as acutely as the cities. In fact, the rural unemployment rate is only slightly lower than it is in urban areas, and in most places services have been cut back even further. We need to make sure that our recovery efforts reach beyond the city limits.

Our long term investment needs raise a different set of issues. One of the biggest tragedies of the Reagan/Bush years is that we utilized the vast proportion of our investment capital on military weapons systems. The money we have spent on B-2 Bombers, M-X Missiles, Star Wars and Seawolf Submarines has done nothing to enhance our industrial capabilities. These projects give nothing to our communities; and, incidentally, they have not improved our military. It is time to transfer these resources to sectors of the economy that will benefit American workers, and improve American industry.

And it is quite clear that shifting Defense monies will do just this. The Congressional Research Service recently released a report written in conjunction with the Government Operations Committee which shows that the Federal Government could generate a net increase of more than 12,000 private sector jobs by shifting $3 billion from military industries to state and local jurisdictions. Such a move, while eliminating 11,500 jobs in military industries, would create 23,600 new jobs in industries focused on civilian production.

Mr. Chairman, this is just the type of shift that our economy desperately needs. There are growing concerns that the pace of U.S. technological advancement is declining. For the U.S. to be competitive in the world economy, American companies must be able to engage in trade, retain market shares, and offer

high quality products, processes and services. The Federal government can play a central role in this by stimulating technological and industrial innovation in targeted sectors of our economy. High speed rail and other types of mass transit, environmental technologies, high-density television and other video processes, these are all areas that the American economy will benefit from if we make prudent investments now.

Let me stress in conclusion that we should keep in mind that it is our local communities who know best what the most important infrastructural priorities are, and that these are not the same everyone of them. This is particularly true with respect to the short term strategy that our country so desperately needs. As we develop and implement our economic program, we must make sure that local governments are included in every step of the process.

TESTIMONY OF THE HONORABLE EDDIE BERNICE JOHNSON
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
FEBRUARY 3, 1993

Chairman Wise, Congresswoman Molinari, thank you for the opportunity to appear before this Subcommittee this morning to address the number one priority of my District, the number one priority of my State of Texas, and the number one priority of this country -- Jobs. We all know that in order to create jobs, we need to channel our resources into those public works which are labor intensive, high-employment projects. And we don't have to look too far to find the best place to invest -- we travel on them, over them, and through them everyday. Of course, I'm speaking of our country's crumbling infrastructure.

The problems with our roads, bridges, water systems and railroads didn't happen overnight. The structural lifelines that our country built since the beginning of this century have been neglected and conveniently ignored for the past few decades. We knew that our pipelines, bridge supports, and roadways were deteriorating, but there were always other priorities for our federal budget. Hopefully, no more. We are facing a structural crisis whereby our bridges are no longer safe, our cities' water systems are bursting and creating billions of dollars in damage, and our roads are obsolete and treacherous. For example, Dallas, whose Federal and State grants fell from

$42.5 million to $29.1 million in just 6 years--it has been impossible to adequately compensate for the lack of federal support during the Republican Administrations and we are anxiously awaiting President Clinton's stimulus package.

If we fail to overhaul our infrastructure now, the costs will only spiral into billions more. For example:

* Nationally, traffic congestion has caused commuters to suffer over 2 billion hours of delay each year, affecting productivity.

* Nearly half of all bridges in our country are structurally deficient or functionally obsolete. That's 238,000 bridges that present a potential tragedy for travellers every day.

* Of the pavement that covers our streets and highways, 205,000 miles is considered to be below accepted engineering standards for cost-effective maintenance.

And our surface transportation routes are not the only problems we face. The Federal Aviation Administration has determined that 23 of the nation's top 100 airports -- including Dallas/Fort Worth Airport in my own

District -- are unacceptably congested. This congestion, totalling about 20 thousand hours of aircraft delay every year, not only results in passenger inconvenience but also costs an additional $1.5 billion dollars to the financially burdened airline industry. While many airports like Love Field in Dallas need major improvements for improved operations and safety, there are also new airport construction projects waiting to be funded.

But there is a solution -- we know that by investing in America's infrastructure we can immediately create jobs, increase the safety of our transportation systems, and give a jump-start to a badly suffering economy. And the money is waiting right now in the Highway Trust Fund -- yes, the fund needs replenishment and that will be addressed by President Clinton in his stimulus package, and by this Committee -- but there are projects that have been funded by ISTEA that could use the money within the next 90 days to **create more jobs**. I have always supported a balanced agenda of long-term and short-term projects, but right now we need to focus on immediate-use funding targeted toward projects which are already underway and ready for full funding.

One of these examples, and there are hundreds across the nation, is in my own District -- the Dallas Area Rapid Transit (DART) Light-Rail Transit Project. With only a 20% federal contribution, DART's Project received support through ISTEA and must come back each year for its federal funding -- this mass-transit project will be a remarkable improvement for all regions of the Dallas metropolitan area, will help our business visitors, and attract more

commercial investment in our city. In short, it will make Dallas a better place to live, a better place to visit, and a better place to do business -- and it could put its remaining $77.5 million in funding to use right now.

As I said, there are countless projects ready to mobilize federal funding, create jobs, and launch an economic recovery. From substantial construction projects needed for the 1994 World Cup at the Cotton Bowl to a vitally-needed wastewater treatment plant, Dallas reflects the needs of all cities at this crucial time -- a suffering economy, badly in need of federal involvement in order to create jobs. Clearly, federal funds must be wisely channelled to where they'll do the most economic good and that, in my opinion, is to our cities' infrastructure projects and public works programs. I look forward to working with each of you and with our Committee Chairman, Mr. Mineta, in ensuring that infrastructure remains a top priority in the Congress, and in the new Administration.

Thank you, again, Mr. Chairman for this opportunity to testify.

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT OF THE PUBLIC WORKS AND TRANSPORTATION COMMITTEE

CONGRESSMAN CRAIG THOMAS
FEBRUARY 3, 1993

THANK YOU MR. CHAIRMAN FOR GIVING ME THE OPPORTUNITY TO SHARE WITH MEMBERS OF THE SUBCOMMITTEE MY THOUGHTS ABOUT "INVESTING IN AMERICA'S INFRASTRUCTURE: SHORT AND LONG-TERM STRATEGIES."

FIRST LET ME SHARE WITH YOU THE WAY I VIEW THE ROLE OF GOVERNMENT IN THE UNITED STATES. WE OUGHT TO HAVE LESS GOVERNMENT, RATHER THAN MORE, AND LOWER TAXES, RATHER THAN HIGHER. MONEY IN THE POCKETS OF INDIVIDUALS IS BETTER SERVED IN THE GENERAL ECONOMY THAN MONEY IN THE POCKETS OF GOVERNMENT. THE ROLE OF GOVERNMENT IS TO CREATE AN ENVIRONMENT IN WHICH THE PRIVATE SECTOR CAN PRODUCE WEALTH. PRESERVING FREEDOM AND OPPORTUNITY ARE THE PRINCIPAL RESPONSIBILITIES OF THE GOVERNMENT. COLLECTIVELY, WE OUGHT TO CARE FOR THOSE WHO ARE UNABLE TO CARE FOR THEMSELVES, BUT IT IS NOT THE ROLE OF GOVERNMENT TO SOLVE EVERYONE'S PROBLEMS.

WITH THIS SAID, LET ME APPROACH TODAY'S TOPIC BY STATING MY SUPPORT FOR INFRASTRUCTURE CREATED IN THE ENVIRONMENT OF THE PRIVATE-SECTOR. IT SEEMS TO ME THOUGH WE HAVE REACHED A POINT WHERE GOVERNMENT IS CRIPPLING INVESTMENT IN THE PRIVATE-SECTOR AND NEEDS TO GET IN ORDER WHAT IT DOES FOR THE BENEFIT OF AMERICA'S INFRASTUCTURE. THE FEDERAL GOVERNMENT NEEDS TO GET OUT OF THE PRIVATE-SECTOR'S WAY. THE FEDERAL GOVERNMENT'S DEFICIT, REGULATION AND SYSTEM OF TAXATION ARE SUBSTANTIAL HURDLES TO

GROWTH IN THE ECONOMY. IT IS MY VIEW THAT WE CANNOT TALK ABOUT INFRASTRUCTURE WITHOUT ADDRESSING THESE ISSUES AS WELL.

THE DEFICIT IS A SIGNIFICANT BURDEN TO THE ECONOMY. SOME ECONOMISTS HAVE FOUND IF THE GOVERNMENT CUT THE DEFICIT BY $100 BILLION, THE 30-YEAR TREASURY BOND WOULD FALL TO BETWEEN 6.4 AND 6.6 PERCENT. AS YOU KNOW, IT CURRENTLY STANDS AROUND 7.3 PERCENT. THIS IS WHAT THE DEFICIT MEANS TO OUR CITIZENS AND THE FEDERAL GOVERNMENT. THE NATION'S RATE OF SAVINGS HAS FALLEN WITH INCREASING DEFICITS. ACCORDING TO THE <u>ECONOMIC REPORT OF THE PRESIDENT</u>, "DEFICITS INCREASED FROM AN AVERAGE OF 1.6 PERCENT OF GDP BETWEEN 1959 AND 1981 TO AN AVERAGE OF 4.4 PERCENT OF GDP BETWEEN 4.4 PERCENT OF GDP BETWEEN 1982 AND 1992, BUT NET PRIVATE SAVING -- GROSS PRIVATE SAVING LESS DEPRECIATION -- ACTUALLY FELL AS A PERCENT OF GDP FROM AN AVERAGE OF 7.8 PERCENT TO AN AVERAGE OF 3.0 PERCENT OVER THE SAME PERIOD." IN ADDITION, PAYMENTS FOR INTEREST ON THE DEFICIT IS A SIZABLE EXPENDITURE. IT SEEMS TO ME UNDER THIS CURRENT CIRCUMSTANCE IT IS MORE DIFFICULT FOR THE GOVERNMENT TO DO WHAT I THINK IT SHOULD BE DOING. CERTAINLY, THERE ARE SOME NEEDS OF OUR CITIZENS THAT COULD BE BETTER SERVED BY THE FEDERAL GOVERNMENT -- INFRASTRUCTURE MAY INDEED BE ONE OF THOSE, BUT UNTIL WE COME TO SOME SET AGREEMENT ON ADDRESSING THE DEFICIT, OUR NUMBER ONE PRIORITY SHOULD BE GETTING OUR ARMS AROUND THE DEFICIT.

FEDERAL GOVERNMENT REGULATION OF PRIVATE CITIZENS, ALSO, HOLDS BACK ADDITIONAL GROWTH IN OUR ECONOMY. WHETHER ONE KNOWS IT,

REGULATION COSTS US ALL. IN 1992, THOMAS HOPKINS CALCULATED THE CURRENT COST OF FEDERAL REGULATIONS ON AMERICAN BUSINESS AT BETWEEN $400-500 BILLION PER YEAR, WHICH TRANSLATES INTO AN AVERAGE OF $4,000-5,000 PER HOUSEHOLD. I AM VERY INTERESTED IN GETTING A HANDLE ON THE CUMULATIVE BURDEN OF GOVERNMENT REGULATION -- BURDENSOME, UNNECESSARY REGULATION ELIMINATES REAL JOBS. THE HERITAGE FOUNDATION RECENTLY SHOWED THAT DURING THE EIGHTIES "WHEN THE STAFFING LEVEL OF FEDERAL REGULATORY AGENCIES FELL, THE NUMBER OF PRIVATE-SECTOR JOBS STARTED CLIMBING. BUT WHEN THE NUMBER OF FEDERAL REGULATORY EMPLOYEES STARTED RISING AGAIN, THE NUMBER OF PRIVATE-SECTOR JOBS STOPPED CLIMBING AND STARTED TO FALL." AS A MEMBER OF THE HOUSE BANKING COMMITTEE, I AM VERY FAMILIAR WITH THE REGULATORY COSTS PLACED ON THE BANKING INDUSTRY. DURING THE PRESIDENT'S ECONOMIC SUMMIT, AMERICAN BANKERS' ASSOCIATION PRESIDENT WILLIAM H. BRANDON CAUGHT THE PRESIDENT'S ATTENTION WHEN HE ASSERTED THAT REGULATORY RELIEF COULD RESULT IN $86 BILLION OF NEW LOANS. THIS WOULD CREATE MORE JOBS THAN HIS TALKED ABOUT STIMULUS PACKAGE. I'M SURE MORE CHANGES CAN BE MADE IN OTHER SECTORS OF THE ECONOMY WITH THE SAME RAMIFICATIONS ON THE ECONOMY AND NO HARM TO "PUBLIC GOOD."

THE OTHER AREA GIVING THIS ECONOMY FITS AND LOWERING INVESTMENTS IN INFRASTRUCTURE IS THE NATION'S TAX SYSTEM, WHICH DOES NOT ENCOURAGE SAVINGS. THE RATE OF PRIVATE AND PUBLIC SAVINGS IN THE FIRST HALF OF 1992 WAS .9 PERCENT, WHILE DURING THE 1960S IT WAS 8.2 PERCENT. TWO EXAMPLES OF THE TAX CODE DISCOURAGING SAVINGS INCLUDE, INCOME AND RETURNS ON SAVINGS ARE TAXED THE SAME, AND

CORPORATE INCOME DISTRIBUTED TO SHAREHOLDERS AS DIVIDENDS IS TAXED TWICE. WE NEED TO MAKE SOME FUNDAMENTAL CHANGES THAT ENCOURAGE INVESTMENT IN THE PRIVATE-SECTOR FOR THE BENEFIT OF LONG-TERM GROWTH IN OUR ECONOMY. I HAVE LONG SUPPORTED A REDUCTION IN THE CAPITAL GAINS TAXES. ON THE CONSUMPTION SIDE OF THE TAX SYSTEM, I WOULD ENCOURAGE AN INVESTMENT TAX CREDIT TO REDUCE THE COST OF CAPITAL. I RECOGNIZE THE CONTRADICTION IN CREATING INCENTIVES FOR SAVINGS AND CONSUMPTION -- IT'S A PUZZLEMENT, BUT BALANCING BOTH IS NECESSARY FOR SHORT- AND LONG-TERM GROWTH. HONESTLY, IT'S GOOD TO HEAR PRESIDENT CLINTON IS CONSIDERING RE-ESTABLISHING THE INVESTMENT TAX CREDIT. THIS CAN BE AN EFFECTIVE INCENTIVE FOR BUSINESSES TO INCREASE INVESTMENT, IF CRAFTED IN MANNER WHICH BRINGS EVEN BENEFIT IN THE ECONOMY.

THESE ARE JUST SOME OF MY THOUGHTS ABOUT INFRASTRUCTURE INVESTMENT AND THE NEEDED CHANGES IN THE FEDERAL GOVERNMENT'S RELATION WITH THE PRIVATE-SECTOR. WE HAVE SOME CHALLENGES AHEAD IN THE DEFICIT, REGULATION AND TAX CODE, BUT IT IS TIME TO COME TO THE SNUBBING POST AND MAKE THE TOUGH CHOICES.

THANKS AGAIN FOR THE OPPORTUNITY TO SUBMIT MY THOUGHTS AND I LOOK FORWARD TO WORKING WITH EACH OF YOU IN THE COMING SESSION.

STATEMENT OF THE

HONORABLE JULIAN C. DIXON

32nd CONGRESSIONAL DISTRICT - CALIFORNIA

BEFORE THE

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

HOUSE PUBLIC WORKS AND TRANSPORTATION COMMITTEE

[redacted]3

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to submit for the hearing record my statement in support of short- and long-term efforts to reinvest in America's infrastructure, specifically, the City and County of Los Angeles. I represent the 32nd congressional district -- where there is a real and serious need for employment opportunities to rebuild the communities, especially those severely impacted by last year's civil disturbance.

After nearly two decades of neglect, it now appears that federal, state, and local reinvestment efforts in our nation's transportation infrastructure is at the top of our domestic agenda. This is particularly true with the enactment of the landmark Intermodal Surface Transportation Efficiency Act and the recent ongoing initiatives to stimulate the economy through other short-term infrastructure programs. Although ISTEA authorized $20.5 billion for highways and bridges and $5.2 billion for

transit systems, Congress appropriated $18.4 billion and $3.7 billion respectively.

Rebuilding and renovating the overall transportation system in California and particularly in the City of Los Angeles are very important matters. Everyone agrees that Los Angeles has the most congested freeways when contrasted with other urban areas, and that repairs to highways and streets are long overdue and will be costly.

Over the next six years, California is expected to receive nearly $10 billion from ISTEA to rebuild the highway system, provide funds for the completion of the Los Angeles Metro Rail System, and to develop and implement other innovative programs such as the electric vehicle. For these goals to materialize, it is essential that the 103rd Congress and the new Administration develop an economic stimulus package that responds to upgrading our infrastructure. Full funding for programs included in the ISTEA represents the minimum action needed to meet transportation infrastructure goals.

President Clinton has pledged to take immediate steps to stimulate the economy through a supplemental appropriations for Fiscal Year 1993. His plan is to put additional funds into existing state and local government public works programs such as highways, transit, wastewater, and other community development

projects.

In anticipation of the President's goals, the County and City of Los Angeles, along with other neighboring counties, have undertaken an inventory of their "ready-to-go" and other long-term public works and community development projects that could put people to work immediately. One long-term project is the completion of the
Los Angeles Metro Rail System. I am hopeful that Congress will fully fund the Los Angeles Metro Rail System in Fiscal Year 1994.

The Los Angeles Metro Rail System is the most important element of Southern California's 30-year, $185 billion overall transportation network. The plan is to develop an integrated public/private transportation system which includes a rail line, commuter rail, extensive bus and para-transit services, car pool, and bus lines. The plan calls for an improved street, highway, freeway and High-Occupancy-Vehicle (HOV) network, state-of-the-art traffic management techniques and increased employer-based programs to reduce commuter traveling time. Key to the success of our proposed transportation management network is the completion of the 150-mile Los Angeles Metro Rail System.

The first line of the Metro Rail System, the Blue Line, opened in June 1990 and thus far has carried eight million passengers with

a daily ridership of over 35,000. This is an incredible achievement in converting "die hard" automobile drivers to replace their cars for a clean, safe, and rapid transit system.

A portion of the second segment, the Red Line, opened on January 30 of this year, several months in advance of its originally scheduled opening date. The on-going construction and development of our transportation system is providing thousands of permanent jobs for local residents.

Southern California continues to be particularly hard hit by the severe decline of key industries, especially the defense and aerospace industries. Employment opportunities for tens of thousands of workers are severely. The effects will be long-term as communities continue to grapple with a declining revenue base.

Several communities of Greater Los Angeles have identified a number of "ready-to-go" short-term infrastructure and community development projects, totalling approximately $197.32 million. The projects could result in immediate job creation or job retention. I am pleased to submit for the Subcommittee's consideration these recommendations for inclusion in an economic stimulus package.

The County's projects include reconstructing sidewalks, improving

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traffic signals and street lighting, widening of highways, and repairing storm drains. Contracts for these projects could be awarded within 90 days, pending the availability of funds. Funding for these projects is critically needed to maintain our infrastructure.

The City's public works and community development projects would also provide immediate employment opportunities for local residents. These projects include pipeline rehabilitation, a water reclamation project, street improvement including the construction of access ramps for the handicapped, and a pilot beautification and street tree trimming project. A complete list of these projects is attached.

Additionally, the Road Maintenance Division of the California Department of Transportation (CALTRANS) also has identified construction projects in both the County and City that could be initiated immediately with appropriate funding. Attached is a complete list of CALTRANS' projects, along with a list from the City of Vernon, a suburb of Los Angeles.

Mr. Chairman, again I appreciate having the opportunity to submit my statement to your Subcommittee. I would be pleased to respond to any of my suggestions in further detail. I look forward to working with you and members of the Subcommittee in the 103rd Congress.

PROJECTS ON FEDERAL-AID SYSTEM
TO BE AWARDED WITHIN 90 DAYS

Project:	Western Av-Del Amo Bl to Carson St
Description:	Widen and reconstruct pavement, modify traffic signals, install street lighting.
Cost:	$2,250,000 contract and construction engineering.
Project:	Beverly Bl-Maple Av to Montebello Bl (FAU L363)
Description:	Widen and reconstruct pavement, construct raised median and drainage system, install street lighting.
Cost:	$1,675,000 contract and construction engineering.
Project:	Eastern Avenue-Los Angeles City Boundary to the San Bernardino Freeway (FAU L359)
Description:	Reconstruct pavement on new vertical alignment.
Cost:	$1,100,000 contract and construction engineering.
Project:	Greenwood Avenue, Et Al. - Includes Montebello Boulevard (FAU L717), Montebello Way (FAU L716), and Greenwood Avenue (FAU L715) from Paramount Boulevard to Union Street.
Description:	Synchronize and upgrade traffic signals.
Cost:	$272,000 contract and construction engineering.
Project:	Imperial Highway at Van Ness Av (FAU L100)
Description:	Install left-turn phasing.
Cost:	$65,000 contract and construction engineering.
Project:	Nadeau Street-Hooper Av to Santa Fe Av (FAU L644)
Description:	Synchronize traffic signals.
Cost:	$60,000 contract and construction engineering.
Project:	Slauson Av @ La Cienega Bl (FAU L125)
Description:	Widen bridge and reconstruct approaches, modify traffic signals, seismic retrofit.
Cost:	$2,500,000 contract and construction engineering.
Project:	Valley View Av from Alondra Bl to Leffingwell Rd
Description:	Traffic signal synchronization.
Cost:	$150,000 contract and construction engineering.
Project:	Ramona Bl/Badillo St/Covina Bl-605 Fwy to 210 Fwy
Description:	Traffic signal synchronization.
Cost:	$500,000 contract and construction engineering.
Project:	Highland Av at Camrose Drive (FAU 5170)
Description:	Construct right-turn lane, modify traffic signals and street lighting.
Cost:	$200,000 contract and construction engineering.

PROJECTS ON FEDERAL-AID SYSTEM
TO BE AWARDED WITHIN 90 DAYS

Project:	Mureau Road at Round Meadow Rd (FAU L841)
Description:	Install traffic signal.
Cost:	$65,000 contract and construction engineering.
Project:	Palmdale Boulevard at 90th St East (FAS Q013) (FAS W493)
Description:	Install traffic signal.
Cost:	$160,000 contract and construction engineering.
Project:	Parkway Calabasas at Ventura Freeway - Phase 1
Description:	Construct new southbound on-and-off ramps.
Cost:	$2,250,000
Project:	Major and Secondary Street Resurfacing/Reconstruction/ Sealing
Description:	Resurfacing/reconstruction, slurry, cape and chip seal
Cost:	$71,561,000
Project:	Storm Drain Projects
Description:	Construct storm drains to relieve flooding in Federal system streets.
Cost:	$8,759,000

Total $91,567,000

JTW:ad
LISTA
2/3/93

LIST B
SHEET 1 OF 3

PROJECTS ON FEDERAL-AID SYSTEM
TO BE AWARDED WITHIN 90 DAYS
RESURFACING/RECONSTRUCTION/SEALING PROJECTS

Project:	Puente Av-445' S/o Francisquito Av to Nelson Av (FAU Q914)
Description:	Resurface pavement, reconstruct damaged curb and sidewalk.
Cost:	$750,000 contract and construction engineering.
Project:	Temple Av-Valinda Av to Azusa Av (FAU L372)
Description:	Resurface pavement.
Cost:	$125,000 contract and construction engineering.
Project:	Compton Av-Imperial Hwy to 120th St (FAU L152)
Description:	Resurface pavement, construct bus pads, modify traffic signals.
Cost:	$260,000 contract and construction engineering.
Project:	Mureau Road-1.2 mi E/o Las Virgenes Rd to Calabasas Road (FAU L841)
Description:	Resurface roadway.
Cost:	$175,000 contract and construction engineering.
Project:	Hacienda Bl-Richview Dr to 1,300' S/o Richview Dr (FAU L683)
Description:	Resurface pavement.
Cost:	$125,000 contract and construction engineering.
Project:	Palmdale Bl-150th St East to 170th St East (FAS Q013)
Description:	Resurface pavement.
Cost:	$280,000 contract and construction engineering
Project:	50th St East-N/o Av M to Av N-8 (FAU W491) (FAU Q047)
Description:	Resurface pavement and construct right-turn lanes at Av M.
Cost:	$500,000 contract and construction engineering.
Project:	Valley Bl-Hambledon Av to E/o La Seda Rd
Description:	Resurface pavement, reconstruct damaged curb and sidewalk.
Cost:	$600,000 contract and construction engineering.
Project:	Alondra Bl-Thorson Av to White Av
Description:	Resurface pavement, construct wheelchair ramps, reconstruct damaged curb and sidewalk.
Cost:	$200,000 contract and construction engineering.
Project:	Rosecrans Av-E/o Butler Av to Frailey St
Description:	Resurface pavement, construct wheelchair ramps, reconstruct damaged curb and sidewalk.
Cost:	$300,000 contract and construction engineering.

LIST B
SHEET 2 OF 3

PROJECTS ON FEDERAL-AID SYSTEM
TO BE AWARDED WITHIN 90 DAYS
RESURFACING/RECONSTRUCTION/SEALING PROJECTS

Project:	Centralia Street, Et Al. Centralia St-Studebaker Rd to Lakewood East C.B. Studebaker Rd-Del Amo Bl to Centralia St
Description:	Resurface pavement, construct wheelchair ramps and bus pads, reconstruct damaged curb and sidewalk, install street lights.
Cost:	$650,000 contract and construction engineering.
Project:	Del Amo Bl-Pioneer Bl to Bloomfield Av
Description:	Resurface pavement, reconstruct damaged parkway improvements.
Cost:	$600,000 contract and construction engineering.
Project:	Clark Av-Lakewood North C.B. to Del Amo Bl
Description:	Resurface pavement, repair damaged parkway improvements.
Cost:	$600,000 contract and construction engineering.
Project:	South St, Et Al. South St-Artesia West C.B. to E'ly St (Portions)
Description:	Resurface pavement, reconstruct damaged parkway improvements.
Cost:	$525,000 contract and construction engineering.
Project:	30th St West, Et Al. 30th St West-Av M to Av N 45th St West-Av N to Quartz Hill Rd
Description:	Resurface pavement.
Cost:	$90,000 contract and construction engineering.
Project:	Elizabeth Lake Rd, Et Al. Elizabeth Lake Rd-20th St West to 10th St West Palmdale Bl-60th St East to 75th St East
Description:	Resurface pavement.
Cost:	$110,000
Project:	Godde Hill Rd-Elizabeth Lake Rd to California Aqueduct
Description:	Resurface pavement.
Cost:	$150,000
Project:	Sierra Hwy-1,900' N/o Av Q to Av Q
Description:	Resurface
Cost:	$100,000 contract and construction engineering.
Project:	90th St East-Av S to Av T
Description:	Resurface
Cost:	$50,000 contract and construction engineering.

LIST B
SHEET 3 OF 3

PROJECTS ON FEDERAL-AID SYSTEM
TO BE AWARDED WITHIN 90 DAYS
RESURFACING/RECONSTRUCTION/SEALING PROJECTS

Project:	The Old Road-Hwy 126 to Rye Cyn Rd
Description:	Cape seal.
Cost:	$95,000 contract and construction engineering.
Project:	Lake Hughes Rd-1,700' W/o Ridge Route to 2.5 mi N/o Ridge Route
Description:	Cape seal.
Cost:	$102,000 contract and construction engineering.
Project:	90th St West-Avenue A to Avenue E
Description:	Cape seal.
Cost:	$90,000 contract and construction engineering.
Project:	Upper Big Tujunga Cyn Rd-Angeles Crest Hwy to M.M. 6.00
Description:	Cape seal.
Cost:	$90,000 contract and construction engineering.
Project:	Avenue J, Et Al. Avenue J-50th St East to 90th St East Avenue H-Division St to Challenger Way 40th St East-Av I to Av H
Description:	Chip seal.
Cost:	$65,000 contract and construction engineering.

Subtotal $6,632,000

JTW:ad
LISTB
2/2/93

LIST C
SHEET 1 OF 1

PROJECTS ON FEDERAL-AID SYSTEM
TO BE AWARDED WITHIN 90 DAYS
STORM DRAIN PROJECTS

Project:	Parkside Drain
Description:	Construct storm drain to relieve flooding on Riverside Drive east of Buena Vista Street - City of Burbank
Cost:	$819,000
Project:	Susana Drain
Description:	Construct storm drain to relieve flooding on Susana Road from Bort Street to Mahia Street and Victoria Street west of Susana Road
Cost:	$1,955,000
Project:	Calabasas - McCoy Creek - Unit 2
Description:	Construct storm drain to relieve flooding on Valley Circle Boulevard, Long Valley Road and Calabasas Road in the vicinity of the Ventura Freeway
Cost:	$2,360,000
Project:	Ventura Canoga Drain
Description:	Construct storm drain to relieve flooding on Canoga Avenue from San Luis Avenue to Golodrina Street
Cost:	$3,450,000
Project:	Cherry Cove Drain
Description:	Construct storm drain to relieve flooding on Cherry Avenue north of Del Amo Boulevard
Cost:	$175,000

Total $8,759,000

JTW:ts
LISTC
2/3/932

Proposed projects that are completely designed.

PROJECT	ENG. DIST.	TYPE	TOTAL COST OF PROJECT	BOE DESIGN TIME FOR COMPLETION (MONTHS)	DOT INVOLVEMENT		STREET LIGHTING INVOLVEMENT		STREET TREE INVOLVEMENT		RIGHT OF WAY INVOLVEMENT	
					YES	NO	YES	NO	YES	NO	YES	NO
...3RD BOYLSON ALVARADO	51	R1	$1,248,300	0								
...6TH KINGSLEY OXFORD	51	M1	$1,235,500	0								
...6TH RIMPAU	51	M1	$262,900	0							X	
...8TH CENT GLADYS PH3	51	R1	$666,300	0								
...8TH GLADYS SAN PEDRO PH2	51	R1	$572,800	0								
ACCESS RAMPS VALLEY U4	61	P	$39,250	0	X		X			X		X
ACCESS RAMPS VENICE 2	65	P	$178,400	0	X		X			X		X
ALAMEDA B TO B	[illegible]	M1	$640,400	0		X	X		X		X	
B&T· 7TH HARBOR FY	54	W	$30,000	0		X		X		X		X
B&T· BRIDGE RAILING GROUP A	54		$95,000	0		X		X		X		X
B&T. CURRAN STWY	54	W	$13,000	0		X		X		X		X
B&T. PORTO MARINA	64		$156,000	0		X		X		X		X
B&T: WILSHIRE HARBOR FY	64	W	$40,000	0		X		X		X		X
BURTON WAY LA CIENEGA BEV HILLS	65	R1	$2,217,200	0	X		X		X			X
CANOGA VENTURA FY SD	61	D	$789,700	0	X		X			X		X
CHALON STONE CANYON	65	R1	$1,378,000	0		X		X		X		X
CHANDLER HAZELTINE VAN NUYS	61	R1	$588,100	0		X		X		X		X
CHANDLER TYRONE SD	61	D	$756,000	0	X		X			X		X
CHATSWORTH GAYNOR BULL CR	61	D	$665,000	0	X		X			X		X
COMPTON WASHINGTON 41ST	51	R1	$676,700	0								
ETHEL HARTLAND SD	61	D	$227,500	0	X			X		X		X
ETHEL MOORPARK L.A. RIVER	61	D	$382,400	0								
FLETCHER L.A. RIVER RAILING RPR	54	M3	$180,000	0		X		X		X		X
FOOTHILL · BLEDSOE	61	M1	$264,200	0		X		X		X	X	
HATTERAS VAN NUYS SEPULVEDA	61	R1	$121,000	0								
LOS ALTOS WKY	54	P	$26,000	0		X		X		X		X
MAGNOLIA · LANKERSHIM/TUJUNGA	61	M1	$979,300	0		X		X		X	X	
MANNING HOLMAN	65	D	$498,200	0	X		X			X		X
MT. WASHINGTON B.K.	54		$180,000	0		X		X		X		X
OXNARD FALLBROOK WOODLAKE	61	M1	$159,500	0	X		X			X		X
PARTHENIA · LURLINE/CANOGA	61	M1	$2,004,000	0		X		X		X	X	
RIVERSIDE FULTON SUNNYSLOPE SD	61	D	$442,500	0	X			X		X		X
RIVERSIDE MURIETTA SD	61	D	$196,300	0	X		X			X		X
SAN FERNANDO SUNLAND	61	R1	$166,700	0		X		X		X	X	
SHERMAN GROVE FOOTHILL SD	61	D	$406,100	0	X			X	X			X
SUNSET WILL ROGERS SP	65	M1	$624,800	0	X		X		X		X	
TEMPLE SILVER LAKE IMPR.	54	M3	$290,000	0		X		X		X		X
VALERIO KESTER NOBLE	61	D	$620,600	0	X			X		X		X
VAN NOORD DELANO SD	61	D	$65,400	0		X		X		X		X
VICTORY TUJUNGA WASH	61	D	$926,100	0	X		X			X		X
WHITE OAK RANCHO WHITE OAK	61	M1	$264,400	0		X		X		X		X
WOODMAN ROSCOE VANOWEN	61	R1	$941,400	0		X		X		X		X
TOTAL =			$22,419,950									

LIST B-1

e No. 1
02/93

ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
Construction Project Program

Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
th St. West, Et Al	110th St. W-Ave J/Ave I	Resurface	480,000	Deteriorated Pavement
th St. West, Et Al	110th Street West-Ave I/Ave D	Resurface	360,000	Deteriorated Pavement
th Street	Western Ave./Normandie Ave.	Resurface	145,000	Deteriorated Pavement
th Street	E of Central Ave./Compton Ave.	Resurface	117,000	Existing Pavement Is Badly Cracked
th Street	Shoup Ave./Inglewood Ave.	Reconstruct	200,000	Deteriorated Pavement, 10% City of Hawthorne
th Street	San Pedro St./Avalon Blvd.	Resurface	120,000	Deteriorated Pavement
th Street	Avalon Blvd./McKinley Ave.	Resurface	120,000	Deteriorated Pavement
th St. East, Et Al	140th St E/Ave. J/Ave G	Resurface	445,000	Deteriorated Pavement
Street	Mednik Ave./Monterey Park City Bdry.	Resurface	82,000	Existing Pavement Is Badly Cracked
Street	Indiana St./Rowan Ave.	Resurface	188,000	Existing Pavement Is Badly Cracked
rd Street	Normandie Ave./Vermont Ave.	Resurface	245,000	Deteriorated Pavement
th St. East	Avenue M/Avenue P	Resurface	236,000	Pavement Is Deteriorating And Failing
h St. East, Et Al	25th St. E/845' N/O Palmdale Bl.	Resurface	448,000	Deteriorated Pavement
h St. West	Avenue N/Avenue P	Resurface	1,400,000	Pavement Is Deteriorating And Failing, Part City of Palmdale
h St. West, Et Al	30th Street W/Ave O-12/Ave M	Resurface	442,000	Deteriorated Pavement, Part City of Palmdale, Part of City of Lancaster
Street	Downey Rd./Mednick Ave.	Resurface	504,000	Existing A.C. Pavement Is Badly Deteriorated
Street	Indiana St./Downey Rd.	Resurface	276,000	Existing A.C. Pavement Is Badly Deteriorated
Street	Mednick St./Woods Ave.	Resurface	165,000	Existing A.C. Pavement Is Badly Deteriorated
th St. East, Et Al	40th St. E/Ave. H/Lancaster Blvd	Resurface	393,000	Deteriorated Pavement
th St. East, Et Al	50th St. E/2,640' S/O Ave.	Resurface	329,000	Deteriorated Pavement
th St. West, Et Al	50th Street West/Ave M/Ave N	Resurface	230,000	Deteriorated Pavement, Part City of Palmdale
th St. West, Et Al	50th St. W/Ave. M./Ave. N/Ave M-60	Resurface	397,000	Pavement Is Deteriorating, 9% City of Lancaster
th Street	Alviso Ave./L.A. City Bdry.	Reconstruct	465,000	Deteriorated Pavement, Windsor Hills High Crown Program

: No. 2
12/93

ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
Construction Project Program

Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
Avenue	Orange Grove Ave./Palm Ave	Resurface	23,400	Deteriorated Pavement
h St. East	Avenue L/Avenue P-12	Resurface	354,000	Pavement Is Deteriorating And Failing, 25% City of Palmdale
d Street	Croesus Ave./Alameda St.	Resurface	61,000	Existing Pavement Is Badly Cracked
meda St. East Barrel	Santa Fe Ave./Del Amo Blvd.	Resurface	472,000	Existing Pavement Is Badly Cracked
meda St. West Barrel	Del Amo Blvd./335' S of Laurel Pk Rd	Resurface	158,000	Existing Pavement Is Badly Cracked
ndra Blvd.	@ Figueroa, Main, Broadway	Reconstruct	140,000	Deteriorated Pavement, Sub-Base Failure, Reconst Sunken PCC Pvmt Areas Only
adena Drive	130' S/New York Dr./180' S/Galbreth	Resurface	93,800	Deteriorated Pavement, Est. Includes Fabric, Needs Light Prep, 6% City
adena Drive	380'N/O New York Dr./130'New York Dr	Resurface	9,900	Deteriorated Pavement
adena Drive, Et Al	New York Dr./N/O Washington Blvd.	Resurface	184,000	Deteriorated Pavement
ar Road	Evanwood Ave./200' W/O Unruh Ave.	Resurface	160,200	Deteriorated Pavement
cow Highway	Vincent Ave./Lark Ellen/Enid/Ltl D W	Resurface	161,000	Pavement Is Deteriorated With Moderate Cracking, 25% City of Azusa
enue G	Division St/50th St. E	Resurface	445,000	Deteriorated Pavement
enue J	90th St. E/140th St. E.	Resurface	307,000	Existing Pavement Is Deteriorated, Cracked and Failing
enue J, Et Al	AVE. J/175TH ST E/190TH ST. E/170	Resurface	252,000	Pavement Is Deteriorating And Failing
enue L-8, Et Al	Lancaster Rd./Munz Ranch Rd./Ave I	Resurface	495,000	Deteriorated Pavement
enue T, Et Al	Ave. T/80th St E/87th St E/90th St E	Resurface	105,000	Deteriorated Pavement
enue T, Et Al	Ave. T 96th St. E/101st St E	Resurface	405,000	Deteriorated Pavement
enue T, Et Al	126th St E/146th E	Resurface	200,000	Existing Pavement Is Deteriorating
eune G	160th St E/210th St E	Resurface	445,000	Deteriorated Pavement
eune I, Et Al	Ave I/40th St E/70th St E	Resurface	489,000	Deteriorated Pavement

a No. 3
02/93

ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
Construction Project Program

Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
une K, Et Al	Ave.K/65th St E/1,346' E/O 65th St	Resurface	462,000	Deteriorated Pavement
illo Street	400' W/Lyman St./771' E/Sunflower	Resurface	14,900	Deteriorated Pavement, Needs Medium Prep, 25% City
dera Street	88th St./Firestone	Resurface	49,000	Deteriorated Pavement, Est. Includes Fabric
dera Street	92nd St./88th St.	Resurface	48,000	Existing Pavement Is Badly Cracked
rranca Avenue	150' S/Orangepath St./165' S/Heber	Resurface	103,000	Pavement Is In Poor Condition With Extensive Cracking
verly Blvd.	Pomona Blvd./Montebello City Bdry.	Resurface	192,000	Existing A.C. Pavement Is Badly Deteriorated
g Pines Highway	M.M. 6.94 Angeles Crest Hwy.	Resurface	450,000	Deteriorated Pavement
g Tujunga Cyn Rd.	Trail Cn/883/Vogel Flats RD.	Resurface	99,100	Deteriorated Pavement
g Tujunga Cyn Rd.	Vogel Flats Rd./Angeles Forest Hwy.	Resurface	344,800	Deteriorated Pavement
g Tujunga Cyn Rd.	265' E/O Doske Rd./795 E/O Doske Rd.	Resurface	10,100	Deteriorated Pavement
uquet Canyon Road	580' S/O MM 15.00/1109' S/O MM 8.00	Resurface	430,000	Existing A.C. Pavement Is Badly Deteriorated
lifornia Blvd.	BE/Eaton Wh/0830/Michillinda Ave.	Resurface	145,000	Deteriorated Pavement
meron Avenue	2085' W/Barranca Ave/1590' E/Grand	Resurface	98,000	Pavement Is In Poor Condition With Extensive Cracking
rmenita Rd.	S/O Painter/Lannetta	Resurface	146,000	Deteriorated Pavement, Est. Includes Fabric
ntral Ave.	127th St./120th St.	Resurface	155,000	Deteriorated Pavement
ntury Blvd. (N/S)	Alley E of Central Ave./Success Ave.	Resurface	159,000	Existing Pavement Is Badly Cracked
lima Road	Lambert/Hawes	Resrf/Reconst	249,000	Deteriorated Pavement, Est. Includes Fabric
lima Road	400' E/O Nogales St./Banida Ave.	Resurface	100,000	Deteriorated Pavement
lima Road	Fullerton Rd./400 E/O Nogales St.	Resurface	313,600	Deteriorated Pavement
mpton Ave.	340' N of El Segundo Blvd./Imperial	Resurface	272,000	Existing Pavement Is Badly Cracked
mpton Blvd.	Figueroa St./Broadway	Resurface	140,000	Deteriorated Pavement, Provide Crown Section

: No. 4
)2/93

ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
Construction Project Program

Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
pton Blvd.	Harris Ave./90' E of Williams Ave.	Resurface	130,000	Existing Pavement Is Badly Cracked
ina Blvd, Et Al	Grand Ave./Glendora/Bonnie Cove	Resurface	245,000	Pavement Is Deteriorated With Moderate Cracking
ina Boulevard	160' W/Vecino Dr./Grand Ave.	Resurface	52,900	Deteriorated Pavement, Est. Includes Fabric, Needs Medium Prep, 80% City
ress Street	Vincent Avenue/285' E/O Vogue Avenue	Resurface	133,000	Pavement Is Deteriorated With Moderate Cracking
Amo Blvd. (N/S)	339' E of Wilmington Ave./Alameda St	Resurface	157,000	Existing A.C. Pavement Is Badly Deteriorated
Amo Blvd. (N/S)	450' E of Alameda St./Long Beach Fwy	Resurface	273,000	Existing A.C. Pavement Is Badly Deteriorated
Segundo Blvd.	Avalon Blvd./Central Ave.	Resurface	300,000	Deteriorated Pavement
Segundo Blvd.	Isis Ave./Inglewood Ave.	Resurface	335,000	Deteriorated Pavement, 8% City of Hawthorne
izabeth Lake Rd, Et Al	55th St. W/Ave K./Ave. L	Resurface	476,000	Deteriorated Pavement
izateth Lake Rd.	Jhnsn Rd/Sn Frnqto Rd./2.5 mls W/O	Resurface	169,000	Existing Pavement Is Deteriorating and Failing
irway Drive	Colima Road/Walnut Drive S	Resurface	114,000	Pavement Is Deteriorated With Moderate Cracking
irway Drive	250' N/UP3/290' S/BS/San Jose Creek	Resurface	57,000	Pavement Is Deteriorated With Moderate Cracking, 30% City of Industry
orence Ave.	Pacific Blvd./Seville Ave.	Resurface	60,000	Existing A.C. Pavement Is Badly Deteriorated
orence Ave.	Metroline Rail Tracks/Alameda St.	Resurface	170,000	Existing Pavement Is Badly Cracked
orence Ave.	Compton Ave./Metroline Rail Tracks	Resurface	82,000	Existing Pavement Is Badly Cracked
othill Blvd.	Pennsylvania Ave./1040 E/O Briggs Av	Resurface	242,900	Deteriorated Pavement
ancisquito Avenue	150' W/Evanwood Ave./California Ave.	Resurface	26,100	Deteriorated Pavement, Needs Light Prep, 50% City
. Tejon Road	121st St. E/Pallett Creek Road	Cape Seal	90,000	Deteriorated Pavement
le Avenue	9th Avenue/Turnbull Canyon Road	Resurface	97,000	Pavement Is In Poor Condition With Extensive Cracking
adstone Street	500' E/Ramona Ave./Sedalia Ave.	Resurface	14,600	Deteriorated Pavement, Needs Light Prep, 50% City

No. 5
)2/93

ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
Construction Project Program

Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
dstone Street	180' W/O Big WE/1242'/Barranca Ave	Resurface	24,200	Deteriorated Pavement
nd Avenue	Puente Street/Rowland Street	Resurface	100,000	Pavement Is In Poor Condition With Extensive Cracking
nd Avenue	Puente St/Rowland St	Resurface	100,000	Pavement Is In Poor Condition With Extensive Cracking
:ienda Blvd.	Richview Dr./700' N/O Richview Dr.	Resurface	43,000	Deteriorated Pavement
wthorne Blvd.	975' N of Imperial Hwy./103rd St.	Resurface	490,000	Deteriorated Pavement
:bert Ave.	Whiteside St./Medford St.	Reconstruct	279,000	Existing A.C. Pavement Is Badly Deteriorated
ll Drive	Protrro Grande Dr./San Gabriel Blvd.	Resurface	78,400	Deteriorated Pavement
oper Ave.	Florence Ave./68th St.	Resurface	51,000	Existing Pavement Is Badly Cracked
oper Ave.	Firestone Blvd./83rd St.	Resurface	50,000	Existing Pavement Is Badly Cracked
perial Hwy.	Shoemaker Ave./Carmenita Rd.	Resurface	225,000	Existing A.C. Pavement Is Badly Deteriorated
perial Hwy.	Carmenita Rd./Valley View Ave.	Resurface	391,000	Existing A.C. Pavement Is Badly Deteriorated
perial Hwy.	300' W of Breezewood/Orange Co. Line	Resurface	385,000	Existing A.C. Pavement Is Badly Deteriorated
glewood Ave.	113th St./111th St.	Resurface	130,000	Deteriorated Pavement
gel Canyon Rd.	435' E/O East Tr/Lopez Canyon Rd.	Resurface	134,700	Deteriorated Pavement
nan Road	Agoura C.B./Tunnel 2	Reconstruct	1,500,000	Deteriorated Pavement
Brea Ave.	Slauson Ave./Stocker St.	Resurface	190,000	Deteriorated Pavement
Cienega Blvd.	Inglewood Bdry/Culver City Bdry	Resurface	695,000	Deteriorated Pavement, Includes SB On Ramp & NB Off Ramp At Slauson
Cienega Blvd.	800' N of Imperial Hwy/San Diego Fwy	Resurface	300,000	Deteriorated Pavement, 35% City of L.A.
Crescenta Ave.	366' S/O Mayfield Ave./Alta Te	Resurface	204,300	Deteriorated Pavement
Crescenta Ave.	Montrose Avenue/Foothill Boulevard	Resurface	188,000	Deteriorated Pavement, 33% City of Glendale
mbert Road	Colima Rd./760' E of Cole Rd.	Resurface	280,000	Existing A.C. Pavement Is Badly Deteriorated

: No. 6
)2/93

ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
Construction Project Program

Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
bert Road	SPRR/Colima	Resurface	249,000	Deteriorated Pavement, Est. Includes Fabric
bert Road	SPRR/Colima	Resurface	249,000	Deteriorated Pavement, Est. Includes Fabric
bert Road	1st Ave./Orange County Line	Resurface	175,000	Existing A.C. Pavement Is Badly Deteriorated
bert Road	Leffingwell Rd./1st Ave.	Resurface	100,000	Existing A.C. Pavement Is Badly Deteriorated
:k Ellen Ave.	Cypress Street/Southern Pacific R.R.	Resurface	91,500	Pavement Is In Poor Condition With Extensive Cracking, 12% City of Covina
ck Ellen Ave.	700' S/Payson St./Payson St.	Resurface	25,200	Deteriorated Pavement, Needs Medium Prep, 50% City
ck Ellen Ave.	Tudor Street/Arrow Highway	Resurface	80,000	Pavement Is In Poor Condition With Extensive Cracking
rk Ellen Ave.	Arrow hwy./Woodcroft St.	Resurface	14,000	Deteriorated Pavement
ffingwell Rd.	Camenita Rd./Meyer Rd.	Resurface	136,000	Existing A.C. Pavement Is Badly Deteriorated
nnox Blvd.	Hawthorne Blvd./Prairie Ave.	Resurface	220,000	Deteriorated Pavement
intenance District 1		Cape Seal	280,000	Estimate Includes 2 Projects, Specific Locations Will Be Identified Later.
intenance District 1		Slurry Seal	535,000	Estimate Includes 5 Projects, Specific Locations Will Be Identified Later.
intenance District 3		Cape Seal	250,000	Estimate Includes 2 Projects, Specific Locations Will Be Identified Later.
intenance District 5		Cape Seal	800,000	Estimate Includes 4 Projects, Specific Locations Will Be Identified Later.
aintenance District 5		Chip Seal	200,000	Estimate Includes 2 Projects, Specific Locations Will Be Identified Later.
anhattan Beach Blvd.	Prairie Ave./Crenshaw Blvd.	Resurface	445,000	Deteriorated Pavement
edford St.	Fowler St./Eastern Ave.	Resurface	178,000	Existing A.C. Pavement Is Badly Deteriorated
edford St.	Indiana St./Fowler St.	Reconstruct	591,000	Existing Pavement Is Deteriorated

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ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
Construction Project Program

Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
er Road	Carmenita/Hastings	Reconstruct	618,000	Deteriorated Pavement, Est. Includes Fabric
trose Ave.	La Crescenta Avenue/Honolulu Avenue	Resurface	456,000	Deteriorated Pavement, 26% City of Glendale
trose Ave.	BE/PRN C Ch/1363/300' E/Florencita	Resurface	246,700	Deteriorated Pavement, Est. Includes Fabric, Needs Medium Prep
ntain Avenue	800' N/Silver Tree St./Baseline Rd.	Resurface	87,000	Pavement Is Deteriorated With Moderate Cracking
ntain Avenue	Euclid Avenue/80' S/Lewiston St.	Resurface	10,200	Deteriorated Pavement, Needs Light Prep, 40% City
Baldy Road	1980' N/BN/Evey Cn/1024/MM 5.00	Resurface	454,000	Pavement Is In Poor Condition With Extensive Cracking
berry Rd.	Colima Rd./Scott Ave.	Resurface	296,000	Existing A.C. Pavement Is Badly Deteriorated
holland Hwy.	Stokes Cyn. Rd./Cold Cyn. Rd.	Resurface	380,000	Deteriorated Pavement, Pave Shoulder At Various Locations
York Drive	Altadena Dr./505'E/O Eaton Cyn Dr.W	Resurface	21,900	Deteriorated Pavement
jales Street	Killian Ave./150'N/O Adney St	Resurface	20,000	Deteriorated Pavement
jales Street	650' S/Northam St./La Puente Rd.	Resurface	89,600	Deteriorated Pavement, Needs Light Prep, 50% City
rmandie Ave.	Sepulveda Blvd./225th St.	Resurface	295,000	Deteriorated Pavement
rmandie Ave.	Imperial Hwy./N of 87th St.	Resurface	820,000	Deteriorated Pavement, 13% City of L.A.
rmandie Ave.	El Segundo Blvd./Imperial	Resurface	475,000	Deteriorated Pavement
rwalk Boulevard	Saragosa/Slauson	Resurface	345,000	Deteriorated Pavement, Est. Includes Fabric
ean View Blvd.	1240' S/O Montrose Ave./Del Mar Rd.	Resurface	41,800	Deteriorated Pavement
ean View Blvd.	Waltonia Dr./200' S/O Foothill blvd.	Resurface	34,900	Deteriorated Pavement
ean View Blvd.	Honolulu Avenue/Foothill Boulevard	Resurface	146,000	Deteriorated Pavement, 4% Each: Cities of Glendale, La Canada
erhill Dr.	Slauson Ave./Stocker St.	Resurface	185,000	Deteriorated Pavement
inter Avenue	Carmenita Rd-Whittier/Telegraph	Resurface	360,000	Deteriorated Pavement, Est. Includes Fabric
lmdale Blvd.	200th St E/2.5 Miles Easterly	Resurface	166,000	Deteriorated Pavement

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ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
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Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
dale Boulevard	47th St. East/80th St. East	Resurface	169,000	Pavement Is Deteriorating And Failing, 77% City of Palmdale
on Street	280' W/o Foothill Fwy/140 W/o Lpz Cy	Resurface	72,100	Deteriorated Pavement
neer Boulevard	Washington Blvd./Rivera	Resurface	245,000	Deteriorated Pavement, Est. Includes Fabric
neer Boulevard	Washington/Rivera	Resurface	245,000	Deteriorated Pavement, Est. Includes Fabric
rero Grande Drive	Arroyo Drive/San Gabriel Boulevard	Resurface	158,000	Deteriorated Pavement
irie Ave.	Manhattan Bch Blvd/S of Compton Blvd	Resurface	265,000	Deteriorated Pavement, 10% City of Lawndale
nte Street	150' E/Delay Avenue/Grand Avenue	Resurface	48,000	Pavement Is In Poor Condition With Extensive Cracking, 50% City of Covina
dondo Beach Blvd.	Prairie Ave./Dominguez Channel	Resurface	355,000	Deteriorated Pavement, 17% City of Torrance
secrans Ave.	Atlantic Ave./Frailey Ave.	Resurface	57,000	Existing A.C. Pavement Is Badly Deteriorated
sh Street	200' E/Durfee Ave./26' E/O Fruitvale	Resurface	23,700	Deteriorated Pavement, Est. Includes Fabric, Needs Heavy Prep, 10% City
n Bernardino Road	Orange Avenue/Vincent Avenue	Resurface	157,000	Pavement Is Deteriorated With Moderate Cracking
an Gabriel Blvd.	182' E/O Delta Ave/Hill Dr.	Resurface	45,500	Deteriorated Pavement
an Gabriel Blvd.	Huntington Dr./185' S/California	Resurface	94,200	Deteriorated Pavement, Needs Light Prep 10% City
an Pasqual St.	200 W/O Berkley/190 W/O San Gabriel	Resurface	80,000	Deteriorated Pavement
an Vicente Blvd.	Bringham Ave./Wilshire Blvd.	Resurface	145,000	Deteriorated Pavement, 30% City of L.A.
anta Anita Ave.	Durfee Ave./250' S/o Fawcett Ave.	Resurface	123,600	Deteriorated Pavement
anta Fe Ave.	Victora St./Alameda St. E.	Resurface	155,000	Existing Pavement Is Badly Cracked
Sepulveda Blvd.	Ohio Ave./Wilshire Blvd.	Resurface	195,000	Deteriorated Pavement
Sepulveda Blvd. E/S	Wilshire Blvd./N of Constitution Ave	Rsrf,PCC Wk,Cb	200,000	Deteriorated Pavement, Protect Power Poles On East Side
Sierra Highway	Ave. Q/1,841' N/O Ave. Q	Resurface	100,000	Deteriorated Pavement

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Street
Torrance Blvd.
Towne Avenue
Valley View Avenu
Valley View Stree
Valyermo Rd., Et
Vasquez Cyn. Rd.
Vermont Ave.
Vermont Ave.
Veteran Ave.
Walnut Grove Aven
Washington Blvd.
Washington Blvd.
Washington Blvd.
Wilmington Ave.
Wilmington Ave. (
Wilmington Ave. (
Wilshire Blvd.
Workman Mill Road
Workman Mill Road
Workman Mill Road

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ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
Construction Project Program

Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
Sierra Highway	Soledad Cyn Rd/601'E/O Mtn. Spnge Rd	Resurface	150,000	Deteriorated Pavement
Sierra Highway	2,090 W/O Shannondale Rd/Crwn Vly Rd	Resurface	234,500	Deteriorated Pavement
Sierra Highway	Snd Cyn. Rd./Vasquez Cyn BN 1510 Min	Resurface	133,000	Deteriorated Pavement
Sierra Highway, Et Al	Sierra Hwy/280 S/O Harold Beech/AveS	Resurface	255,000	Deteriorated Pavement, Part of City Palmdale
Sierra Hwy.	Crown Valley Rd./Soledad Rd.	Resurface	333,500	Existing Pavement Is Deteriorated and Failing
Sierra Hwy., Et Al	Sierra Hwy/Avenue S/Barrel Spngs Rd.	Resurface	396,000	Existing Pavement Is Deteriorated and Failing, 50% City of Palmdale
Slauson Ave.	W of Keniston Ave./E of Deane Ave.	Resurface	180,000	Deteriorated Pavement
Slauson Avenue	605 Fwy./Norwalk Boulevard	Resurface	271,000	Deteriorated Pavement, Est. Includes Fabric
Soledad Canyon Rd, Et Al	Soledad Cyn Rd/Crown Vly Rd/Gillespi	Widen Pavement	677,000	Improve Traffic Flow And Relieve Drainage Problems In the Area
Soledad Canyon Road	Soledad Cyn Rd. E/1,920' W/O Antelop	Resurface	324,000	Deteriorated Pavement
Soledad Canyon Road	BW/Indian Creek/0873/Santiago Rd.E	Resurface	482,000	Deteriorated Pavement
Soledad Canyon Road	Lang Station Rd/Agua Dulce Cyn Rd	Resurface	270,000	Deteriorated Pavement
Soledad Canyon Road	Lang Station Rd./Agua Dulce Cyn. Rd.	Resurface	270,000	Existing A.C. Pavement Is Badly Deteriorated
Stocker St.	La Cienega Blvd./Overhill Dr.	Resurface	210,000	Deteriorated Pavement
Stockwell St.	Willowbrook Ave./E of Mona Blvd.	Reconstruct	107,000	Existing Pavement Is Badly Cracked
Susana Rd.	Del Amo Blvd./Long Beach Fwy.	Resurface	48,000	Existing A.C. Pavement Is Badly Deteriorated
Temple Ave.	4500' E/O Grand Ave./8591' E/O Grand	Resurface	205,000	Deteriorated Pavement
Temple Ave.	703' W/Ruthcrest Ave./Valinda Ave.	Resurface	157,000	Pavement Is In Poor Condition With Extensive Cracking
Temple City Blvd.	Camino Real/335' N/O Naomi Ave.	Resurface	30,400	Deteriorated Pavement

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ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
Construction Project Program

Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
rra Highway	Soledad Cyn Rd/601'E/O Mtn. Spngs Rd	Resurface	150,000	Deteriorated Pavement
rra Highway	2,090 W/O Shannondale Rd/Crwn Vly Rd	Resurface	234,500	Deteriorated Pavement
rra Highway	Snd Cyn. Rd./Vasquez Cyn BN 1510 Min	Resurface	133,000	Deteriorated Pavement
erra Highway, Et Al	Sierra Hwy/280 S/O Harold Beech/AveS	Resurface	255,000	Deteriorated Pavement, Part of City Palmdale
erra Hwy.	Crown Valley Rd./Soledad Rd.	Resurface	333,500	Existing Pavement Is Deteriorated and Failing
erra Hwy., Et Al	Sierra Hwy/Avenue S/Barrel Spngs Rd.	Resurface	396,000	Existing Pavement Is Deteriorated and Failing, 50% City of Palmdale
auson Ave.	W of Keniston Ave./E of Deane Ave.	Resurface	180,000	Deteriorated Pavement
auson Avenue	605 Fwy./Norwalk Boulevard	Resurface	271,000	Deteriorated Pavement, Est. Includes Fabric
ledad Canyon Rd, Et Al	Soledad Cyn Rd/Crown Vly Rd/Gillespi	Widen Pavement	677,000	Improve Traffic Flow And Relieve Drainage Problems In the Area
ledad Canyon Road	Soledad Cyn Rd. N/1,920' W/O Antelop	Resurface	324,000	Deteriorated Pavement
ledad Canyon Road	BW/Indian Creek/0873/Santiago Rd.E	Resurface	482,000	Deteriorated Pavement
ledad Canyon Road	Lang Station Rd/Agua Dulce Cyn Rd	Resurface	270,000	Deteriorated Pavement
ledad Canyon Road	Lang Station Rd./Agua Dulce Cyn. Rd.	Resurface	270,000	Existing A.C. Pavement Is Badly Deteriorated
tocker St.	La Cienega Blvd./Overhill Dr.	Resurface	210,000	Deteriorated Pavement
tockwell St.	Willowbrook Ave./E of Mona Blvd.	Reconstruct	107,000	Existing Pavement Is Badly Cracked
usana Rd.	Del Amo Blvd./Long Beach Fwy.	Resurface	48,000	Existing A.C. Pavement Is Badly Deteriorated
emple Ave.	4500' E/O Grand Ave./8591' E/O Grand	Resurface	205,000	Deteriorated Pavement
emple Ave.	703' W/Ruthcrest Ave./Valinda Ave.	Resurface	157,000	Pavement Is In Poor Condition With Extensive Cracking
emple City Blvd.	Camino Real/335' N/O Naomi Ave.	Resurface	30,400	Deteriorated Pavement

ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
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Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
rrance Blvd.	Vermont Av/City Bdry E/O Harbor Fwy	Resurface	105,000	Deteriorated Pavement
wne Avenue	Gladstone St./Damien Ave/Sedalia Ave	Resurface	55,000	Pavement Is Deteriorated With Moderate Cracking, 15% City of Claremont
lley View Avenue	Telegraph/Leffingwell	Resurface	146,000	Deteriorated Pavement, Est. Includes Fabric
lley View Street	Telegraph/Leffingwell	Resurface	146,000	Deteriorated Pavement, Est. Includes Fabric
lyermo Rd., Et Al	Big Pines Hwy/820' N/O Bridge N/490	Resurface	351,000	Deteriorated Pavement
squez Cyn. Rd.	Bouquet Cyn Rd./Sierra Highway	Resurface	324,000	Deteriorated Pavement
rmont Ave.	Knox St./190th St.	Resurface	280,000	Deteriorated Pavement, 2% City of L.A.
rmont Ave.	Century Blvd./N of 87th St.	Resurface	690,000	Deteriorated Pavement and Reflective Cracking
teran Ave.	1010' S of Wilshire Bl/Wilshire Blvd	Resurface	105,000	Deteriorated Pavement, 60% City of L.A.
lnut Grove Avenue	25' N/Drayer Lane/620' S/BS Alhmb Wh	Resurface	96,000	Deteriorated Pavement, 9% City of Rosemead
shington Blvd.	San Gabriel Rd./Pioneer Blvd.	Resrf/Reconst	172,000	Deteriorated Pavement, Est. Includes Fabric
shington Blvd.	450' E/Allen Ave./730' E/Altadena Dr	Resurface	129,900	Deteriorated Pavement, Est. Includes Fabric, Needs Light Prep, 1% City
shington Blvd.	450' E/Allen Avenue/730' E/Altadena	Resurface	343,000	Deteriorated Pavement, 5% City of Pasadena
lmington Ave.	Del Amo Bvld./85' N of Helmick St.	Resurface	107,000	Existing A.C. Pavement Is Badly Deteriorated
lmington Ave. (E/S)	Gage Ave./65th St.	Reconstruct	72,000	Existing A.C. Pavement Is Badly Deteriorated
lmington Ave. (E/S)	University Dr./200' Victoria St.	Widen/Resrf	245,000	Existing A.C. Pavement Is Badly Deteriorated
lshire Blvd.	Federal Ave./Sepulveda Blvd.	Resurface	240,000	Deteriorated Pavement
rkman Mill Road	104' N/Dump Road/San Jose Creek	Resurface	181,000	Pavement Is In Poor Condition With Extensive Cracking
rkman Mill Road	Pellissier Pl/124' S/Whittier Woods	Resurface	205,000	Pavement Is Deteriorated With Moderate Cracking
rkman Mill Road	509' N/O Mission Mill Rd/1775'	Resurface	36,900	Deteriorated Pavement

ROAD MAINTENANCE DIVISION
CALTRANS SPONSORED
Construction Project Program

Street	Limits	Recommended Improvement	Project Estimate	COMMENTS
		Construction Total =	$ 47,654,000	
		Grand Total:		
		Including Pvmt Prep =	$ 59,567,500	
		+ 9% CE	5,361,500	
		TOTAL	$64,929,000	

LIST OF VERNON PUBLIC WORKS PROJECTS

PROJECT	ESTIMATED COST
37th Street Resurfacing from Alameda Street to Santa Fe Avenue	56,000
38th Street Resurfacing from Alameda Street to Santa Fe Avenue	57,000
Vernon Avenue Resurfacing from Santa Fe Avenue to Downey Road	216,000
Bandini Boulevard Resurfacing from the L.A. River to the county line	109,000
51st Street Resurfacing from Alameda Street to Santa Fe Avenue	39,000
District Boulevard Resurfacing from Atlantic boulevard to w/o Cudahy	39,000
Pacific Boulevard Resurfacing from Santa Fe Avenue to south City boundary	234,000
26th Street Resurfacing from Downey Road to Indiana Street	289,000
Bandini Boulevard Resurfacing from Ayers Avenue to the Long Beach Freeway	56,000
Boyle Avenue and Fruitland Avenue Traffic Signal Upgrade	82,000
Soto Street and Leonis Boulevard Traffic Signal Upgrade	91,000
First Phase of CMD Sewer Reconstruction	1,310,000
Loma Vista Avenue Reconstruction from District Boulevard	262,000
Inspect Well 14 and make necessary repairs	44,000
Reconstruction of Reservoir	240,000
Total of all Projects	$3,178,000

ALBERT RUSSELL WYNN
4TH DISTRICT, MARYLAND

Congress of the United States
House of Representatives
Washington, DC 20515-2004

**STATEMENT OF THE HONORABLE
ALBERT R. WYNN**

**Hearing of the Economic Development Subcommittee
of the
Public Works Committee**

February 3, 1993

I would like to thank the Chairman and the members of the Subcommittee for convening this historic and important hearing. At no time in recent history can I recall such a sense of hope and high expectations for economic revitalization in our nation. Many of us were elected and entrusted to lead this country out of the recession which has crippled so many small businesses and families. As trustees of the public faith, we can do no less than take significant steps toward the creation of jobs and rebuilding our country's infrastructure. Today's hearing represents the beginning of a new day as we begin to consider solutions to the economic challenges we face.

In the Great Free State of Maryland, unemployment remains high. Bridges are deteriorating, streets are crumbling, parks are wasting away--my state and our country are falling down before our eyes. The way to bridge these problems is to put people to work rebuilding our infrastructure. The short term benefit of creating jobs in the areas of construction and engineering will translate

into long term, sustainable economic growth for the future.

The excesses of the 1980's, and the savings & loan bailout, have commanded a dear price--we are deeply entrenched in a recession which shows meager signs of recovery. Sears, IBM and other major companies, to say nothing of the small businessman/woman, have had to suffer painful layoffs and physical plant closures.

In December 1992, Maryland's unemployment rate averaged 6.3% (163,910 individuals)--trailing the national rate of 7.0% (8,829,000 individuals) only by a few points. Specifically, approximately 23,000 Marylanders in the construction industry were unemployed in 1991. If you assume an average weekly wage, this amounted to an economic loss of $12.3 million. Even if you account for the $223.00 per week paid in unemployment, individuals in the construction trades still suffer a net weekly loss of approximately $7 million overall. These statistics are unpalatable, and require immediate action by the Congress.

The investments that are needed to upgrade our infrastructure through road building, park restoration, bridge repair and mass transit improvements, can also expand the economic prosperity of our communities. As a member of the 103rd Congress, I want to help provide job opportunities in my state and in the country through such infrastructure improvements.

The foundation for a successful infrastructure building plan is full funding of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). The law authorizes spending $26.2 billion this year, but current appropriations provide for only $22.2 billion--a $4 billion gap. I can pinpoint dozens of worthwhile projects in my district alone which are beyond the controversy and planning stage, and ready for appropriations. These projects can commence immediately, reach completion within two years, and serve the added purpose of catapulting President Clinton's economic plan into action in the short term.

The President's economic stimulus package must focus on regional considerations in order to provide a sound infrastructure. In my district, for instance, there are several major commuter transportation systems: Metrobus, Metrorail and MARC. Each of these systems serves a wide base in our community--including Capitol Hill employees who opt not to deal with commuter traffic each morning, and single mothers who rely on the system for primary transportation needs. When necessary, Metro officials coordinate with local authorities for heavy travel days like the Presidential Inauguration when over half a million riders had used the system by noon.

I believe we should initially focus on mass transit. Our own Metro system is beginning to show signs of age and deterioration

as I am sure is the case in other regions of the country. In view of the major environmental and employment benefits from mass transit public works projects, these projects should be given a priority under ISTEA. Upgrading our mass transit systems will undoubtedly increase ridership and reduce wear on our highways. The types of improvements necessary include track repair, train/bus replacement, and more accessible connections between modes.

The rewards are self evident. Businesses will flourish as they compete for contracts, and the quality of life in our communities improved. Moreover, the Clinton Administration will have demonstrated its commitment to rebuilding the infrastructure of this country.

The challenge before this 103rd Congress is to move quickly and decisively toward a plan which will create new jobs now. Targeted investments can help maximized benefits by sending relief to some of the most economically disadvantaged areas first.

Mr. Chairman, I appreciate this opportunity to submit testimony before the Committee, and wish to make a final plea for prompt action on behalf of my constituents. I look forward to working with you on these vital issues that will increase American economic performance.

Mr. WISE. I recognize the gentleman from New York, Mr. Quinn.

Mr. QUINN. Thank you, Mr. Chairman.

I appreciate the opportunity to testify today during the series of hearings on investing in America's infrastructure. This subcommittee has historically taken the initiative on infrastructure needs and investment strategies.

I commend you, Mr. Chairman, and Ms. Molinari, for your immediate action on this issue and claiming jurisdiction for this subcommittee in the Public Works and Transportation Committee.

Recently, there have been signals from the top members of the new Administration that the President will present an economic stimulus plan that will contain infrastructure investment. Yesterday, our former colleague, Leon Panetta, reported that the President began meeting with his top economic advisers to begin his final decision-making on the economic plan which he will unveil to the Nation and to the Congress on February 17th.

The President made infrastructure investment a major element of his campaign last fall, and will be faced with many difficult positions on this plan. Short-term stimulus, long-term investment, deficit impact, spending cuts, et cetera, will all need to be addressed in the coming weeks and months.

The latest economic indicators showed strong economic growth at the end of last year. The composite index of leading indicators released just yesterday showed strong growth in the month of December which built upon expanded growth both in October and November of last year.

In my opinion, I believe that should the Administration feel it is still necessary to pursue a short-term strategy, that strategy should be linked to long-term investment plans. Using existing programs, one method would be to fund State and local projects which are ready to proceed in the next 60 days.

Indeed, we heard last month from some of our city's mayors, and just yesterday from some of our State's Governors, that there are numerous projects ready to proceed in 60 days. Projects, however, which would require environmental impact statements and site acquisitions would not be up and running to offer any immediate benefit to our economy.

Long-term investment strategies that are not necessarily direct expenditures, should also be examined. Incentives for savings to purchase homes or invest in capital assets could have a positive and long lasting effect on our economy.

From my experience, a former local official from Western New York, and a town supervisor, I can tell you firsthand there is a concern from our local communities about Washington and our ability to have an impact in a timely manner. Now that I am here in Washington, I want all of my colleagues to understand that local governments are not looking for a Federal handout but, rather, a partnership among Federal, State, and their local governments and the private sector to work together to meet our infrastructure needs.

I am extremely pleased to be serving on this committee and playing a role on this important issue. I believe it is essential that if an economic plan is presented by the President, that it utilize in-

frastructure investment as a vehicle for boosting the economy and addressing our country's infrastructure needs.

As I said in our very first hearing back in January, there is an old adage, if you chop your own wood, it warms you twice. I still believe that a properly planned infrastructure investment could have the same effect.

I sought membership on this committee because I knew this committee would aggressively play a role in helping our States and our cities. I look forward to reviewing the President's plan next week and working with this committee and the subcommittee to address this important issue.

Thank you for the opportunity to testify, Mr. Chairman.

Mr. WISE. I thank the gentleman from New York very much for his statement, and I agree with you. People talk about short-term economic stimulus, but we are talking, in effect, about long-term packages and getting that money out there quickly, as the gentleman suggests.

Mr. QUINN. Thank you, Mr. Chairman.

Mr. WISE. I Recognize the gentleman from California, Mr. Filner, for any opening remarks he may wish to make.

Mr. FILNER. Thank you, Mr. Chairman and Ms. Molinari.

I guess if some of my colleagues have been assigned to subcommittee heaven, I will be going to subcommittee hell because I do have a short statement.

Mr. WISE. Just purgatory. You will have a chance to work your way out of it.

Mr. FILNER. I have a prepared statement. I am working my way down.

Again, like my colleagues, I thank you for taking the lead in spotlighting this issue very early and making it a clear part of the national agenda as quickly as possible.

Obviously, today, and in past hearings, we have heard about the state of our economy: Unacceptable employment and underemployment rates, families without jobs and food on the table, and an aging and inadequate infrastructure which plagues the Nation. Each of our own districts experiences these conditions.

Like many of the cities and counties and States we have heard from, my city of San Diego has hundreds of projects that are ready to go and with adequate resources could be employing thousands of people within 90 days.

These projects total hundreds of millions of dollars. They will clearly improve our region's economy through infrastructure investment and the creation of jobs, and whether we look at technology, environment, public safety, library, housing, water, transportation, what we call neighborhood pride and protection, parks, and commercial revitalization, they clearly are for future investment.

Yesterday, Chairman Mineta mentioned specificity; about the desire of the Administration to see specificity in the projects. I have with me the wish list that comes from the City of San Diego, the County of San Diego, the City of Chula Vista, National City, in my district, San Diego Unified School District, and they list hundreds of specific projects, their costs, and the number of jobs each project would create. They are ready to go. They just need some dollars.

Now, financing of these ready-to-go projects is a worthy goal, as is putting America back to work, and, obviously, this committee must commit ourselves to making that happen. But I want to just briefly amplify a theme I talked about yesterday; that as we consider the short-term infrastructure stimulus, we begin to link the strategy not only with a general long-term package, but very specifically with an economic conversion strategy for this Nation.

Like many other cities, San Diego is dependent on defense spending and suffering mightily because of Defense cutbacks. We have lost thousands of jobs and several multi-million dollar defense contracts. We have begun the painful process of weaning ourselves from the military, but it is not an easy process and it requires a tremendous amount of resources.

As a member of the City Council of San Diego for the last five years, I led the effort to develop and implement an economic conversion plan, and we have Federal funding to help in that planning, but, obviously, we have a long way to go. So as this Nation realizes this critical need for both economic conversion and economic stimulus, I think we have to start thinking of how we can accomplish both with the same resources.

We must formulate a plan in which defense companies with conversion plans get priority on projects we are financing to stimulate the economy and repair our Nation's infrastructure. We must link new projects with existing and future job retraining programs about which we have heard a lot.

For example, under the Clean Water Act, San Diego will be building multi-billion dollar sewage treatment and water reclamation systems. At the same time, however, we have aerospace and high-tech defense contractors losing contracts. So as we build these new sewage and reclamation facilities, why don't we give preference to defense contractors who have approved conversion plans; and as we hire engineers and mid-level managers for these projects, let us give priority to laid-off workers currently being trained for other jobs, which we have heard may no longer exist.

We in San Diego are interested in constructing a $25 million traffic control communications systems for smart roads and highways. Many defense technologies are perfectly suited to development of these smart systems, and we should ensure that we link available technology with need as we finance infrastructure improvements.

So let us begin to think about linking all the short-term stimuli to long-term economic diversification projects. We would be filling two national objectives at the same time with one source of funding, and we certainly would be helping our defense industries diversify into civilian markets and domestic need.

My city needs economic stimulus. My city needs economic conversion. There is a vital link we cannot ignore, and I respectfully ask the subcommittee to consider these discussions as we embark on putting the Nation's economy back on track.

Thank you very much, Mr. Chairman, and I hope the written statement will be part of the record.

[Mr. Filner's prepared statement follows:]

STATEMENT BY CONGRESSMAN BOB FILNER TO THE ECONOMIC DEVELOPMENT SUBCOMMITTEE--FEBRUARY 3, 1993.

Today and in past hearings we have heard about the state of our economy--unacceptable unemployment and underemployment rates, families without jobs and food on the table, and an aging and inadequate infrastructure which plagues our nation. Each of our own districts experiences these conditions.

Like many of the cities, counties, and states we have heard from, San Diego has hundreds of projects that are "ready-to-go"--and, with adequate resources, could be employing thousands of people within 3 months.

These projects total hundreds of millions of dollars. They will improve our region's economy through infrastructure investment and the creation of jobs. These projects are in the areas of technology, environment, public safety, library, housing, water, transportation, neighborhood pride and protection, parks, and commercial revitalization.

Chairman Mineta mentioned "specificity" yesterday. I have here with me "wish lists" from the City of San Diego, San Diego County, the City of Chula Vista, and the San Diego Unified School District. These lists mention hundreds of very specific projects, their cost, and the number of jobs each project would create. All of these projects are "ready-to-go", but they

require funding.

Financing of these "ready-to-go" projects is a worthy goal--as is putting America back to work, and we on this Committee must commit ourselves to making it happen. But as we consider the short-term infrastructure stimulus, we must begin to link this strategy with long-term economic conversion plans.

Like many other cities in this nation, San Diego is heavily dependent on defense spending--and is suffering because of defense cutbacks. We have already lost thousands of jobs and several multi-million dollar defense contracts.

We have begun the painful process of weaning ourselves from the military--but it is not an easy process and it is one that requires a tremendous amount of resources. When I was on the San Diego City Council, I convinced the Council to adopt an economic conversion plan, and obtained a federal grant for this program. But, we have a long way to go.

As this nation realizes the critical need for both economic conversion and economic stimulus, we must start thinking of how we can accomplish both with <u>the same resources</u>.

We must formulate a plan in which defense companies with conversion plans get priority on projects we are financing to stimulate the economy and repair our nation's infrastructure. We

must link new projects with existing and future job retraining programs.

For example, under the Clean Water Act, San Diego will be building multi-billion dollar sewage treatment and water reclamation systems. At the same time, however, we have aerospace and high-tech defense contractors losing contracts. As we build these new sewage and reclamation facilities, let us give preference to defense contractors with approved conversion plans. As we hire engineers and mid-level managers for these projects, let us give priority to laid-off workers currently being trained for other jobs which may or may not exist.

The City of San Diego is also interested in constructing a $25 million Traffic Control Communications Systems (for "smart roads and highways"). Many defense technologies are perfectly suited to the development of these "smart" systems and we should ensure that we link available technology with need as we finance these infrastructure improvements.

We must begin to think about linking <u>all</u> the short-term stimuli to long-term economic diversification projects. In this regard, we would be fulfilling <u>two</u> national objectives at the same time while using one source of funds. And we would be helping our defense industries diversify into civilian markets and domestic need.

This is a vital link which we cannot ignore and I would respectfully ask the Subcommittee to consider all of these discussions in the context of this nation's economic conversion needs.

Mr. WISE. I recognize the Ranking Member of our subcommittee, who has been extremely active and without whose cooperation we would not be able to hold these hearings and I appreciate all she has done. Ms. Molinari.

Ms. MOLINARI. Thank you very much, Mr. Chairman, and I am sorry I was a little delayed getting over here today.

I just want to echo the sentiments that have been expressed by those who have spoken before. This is a critical time for this hearing as we sense that the Clinton administration is moving towards the formulation of a policy. We want to make sure and better ensure that those who are closest to the infrastructure in this level of government, the Members of Congress, can best express their hopes and dreams for a more productive Nation. This can best be done through the series of hearings we have been holding that included Governors, mayors and today gratefully, Members of Congress.

And I want to thank the members of the subcommittee for putting together and attending a rather rigorous number of committee hearings when the rest of the committees have basically not even had their organizational meetings yet. We are on our third subcommittee meeting.

I want to take this opportunity to thank those Members of Congress who don't serve on this committee but understand the importance of having their voice and their dreams be heard here today. Mr. Chairman, thank you for bringing us together again and again, thank you to those who are going to follow with their ideas.

Mr. WISE. It is my understanding we do get paid by the hearing, don't we?

I recognize with pleasure the full committee Chair of the Public Works Committee, who has been extremely active in charging this committee to get cracking, Congressman Mineta, from California, our Chairman.

The CHAIR. Thank you very much, Mr. Chairman.

Since this is a continuation of previous hearings, let me just thank you and Susan for continuing this series of hearings to hear from Governors and now Members of Congress. It is important that we proceed with some economic stimulus program. It is going to be important that a major element of that stimulus program be transportation- and infrastructure-related.

So, again, without taking any more time, I would rather hear from the witnesses that we have coming before us to help in our deliberations to put an effective package together. Thank you very much.

Mr. WISE. Recognize the gentleman from Georgia, Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman, for allowing me to go ahead with the statement, and we do have other things on the agenda this morning.

Yesterday, we heard testimony from several Governors as to their ideas on infrastructure as a stimulant to the economy. I had hoped they would voice more than they did, their discontentment, disagreement, and concern about excessive regulations and unfunded mandates imposed by previous acts of Congress, especially those unfunded mandates they have been forced to pass onto local governments.

I have experienced, as a local official, and I am constantly reminded by each and every local official in the 3rd District of Georgia about such unfunded mandates. However, Mr. Chairman, excessive government regulations have not only affected local and State governments, but have created many problems for small and large businesses, problems that have caused many industrialists to move south of the border taking American jobs with them.

As this Congress addresses ways to rebuild our infrastructure, and in an attempt to stimulate our economy, we must consider other actions, such as more balanced environmental regulations, health care reform, welfare reform, and tax reforms, such as investment tax credit, capital gains tax credit, and repeal of the alternative minimum tax, just to name a few.

As most States are required by law to balance their budgets, we need the same requirement in the Federal Government, whereby we can grasp hold of deficit spending. I have stated before and I will state again that the most difficult challenge facing this Congress is the deficit. We must meet this challenge by controlling spending but not, and I say again, not by raising taxes.

I was pleased to hear the Governors speak yesterday without suggesting a tax increase, different somewhat from the previous witnesses we heard on January 15, who had a number of great ideas on how to spend, spend, spend and also how to raise taxes, raise taxes, and raise taxes. One such witness outlined the building of this country's first infrastructure during the 1800s and the early 1900s when this Nation spent a considerable amount of its resources on building such infrastructure.

Let me remind the committee that even though his outline was well presented, this government did not have 50 percent of its budget going to pay for entitlement programs during the building of our first infrastructure. Let us take a quick look at the cost of entitlements. During the year 1991, this government spent $633 billion for the top 20 entitlement programs that we must fund. Those same top 20 entitlement programs are estimated to cost $687 billion for the year 1992. A $54 billion increase. Without controls being implemented, that figure will increase even more during 1993.

There is an old saying, the road to the poor house is paved with good intentions. Congress had good intentions when it established entitlement programs, but those entitlement programs have, for this country, paved the way to the poor house. One more thing, Mr. Chairman, pertaining to entitlements. Twenty-five percent, or one in four, Americans, in some way, is attached to a Federal entitlement program which is indexed to the cost of living.

I stress that whatever we do in this Congress to address the economy, jobs or the budget, we must do so without increasing taxes. Raising taxes will only worsen the situation. Raising taxes will result in increased inflation and an increased cost of living and a tremendous increase in the budget.

Thank you, Mr. Chairman.

Mr. WISE. I thank the gentleman, and recognize the gentleman from New York, Mr. Nadler, for any opening remarks he may wish to make.

Mr. NADLER. Thank you, Mr. Chairman. I am going to be brief.

I simply want to commend the Chairman of the subcommittee and the Chairman of the committee for the series of hearings. I also want to say I hope that the infrastructure package will be more than able—of 50 to 60 rather than the 20 we have been reading about so it can have a real long-term economic impact on the basic lack of investment in the country, which is one of the key causes for the lack of productivity growth and of the general weakness of the economy over a long period of time, which I view as much more important and much more fundamental than the cyclical recession we are allegedly coming out of.

Secondly, I would hope that we would focus on long-term, not just short-term stimulus but on long-term economic investments. And I would hope that as someone who spent 16 years in a State capital and observed that, at least in the New York State capital, I presume in some other State capitals as well, infrastructure projects are not always considered solely on their economic merits but sometimes on political considerations too, that we would look at the long-term basis of developing some sort of a basis for judging major infrastructure investments in terms of their long-term impact on growth and productivity impact so we can judge among them and make sure Federal dollars are going for projects that are productive in terms of long-term economic productivity gains, and not merely of local political gains.

And I think that that is a matter that, as we get into a much higher level of expenditure over the long-term, we should devote some attention to, and I thank you.

Mr. WISE. I thank the gentleman and turn to the gentleman from Michigan, Mr. Hoekstra, for any opening remarks he may wish to make.

Mr. HOEKSTRA. I have submitted a prepared statement for the record, which I will pass on reading. Thank you.

Mr. WISE. And you know where you are going; in heaven as well.

[Mr. Hoekstra's prepared statement follows:]

February 2, 1993

STATEMENT BY CONGRESSMAN PETER HOEKSTRA (R-MI) BEFORE
THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

Thank you Chairman Wise and Ranking Member Susan Molinari for your leadership on this issue. I am pleased to be a part of this committee and commend you for taking the lead on discussions on infrastructure investment. The series of infrastructure hearings proposed by you are an important step toward addressing economic issues and the budget deficit.

Few deny the need for infrastructure investment. Gridlock is a daily fact of life for many Americans. Our crowded, crumbling roadways cause commuters to beg for a new commitment to rebuilding our nation's infrastructure. Increasing support exists for using infrastructure investment as a means to stimulate our sluggish economy, and I am anxious to learn more about this matter. But I share the concern already expressed by some of my colleagues - - how are we going to pay for this?

Quick fixes are not the answer. They will only provide temporary relief and contribute to our bulging federal deficit. I am interested in working with this committee to develop a long-term strategy to rebuild our nation's infrastructure. It seems to me that we should take a close look at any economic stimulus proposals to ensure that they <u>help</u> rather than hinder our

economic growth.

Band-aid measures are not what we need right now. Instead, we need meaningful, long-term solutions to our nation's economic and infrastructure woes. I hope that open debate and bipartisan cooperation will lead to reasonable and effective solutions to our nation's economic problems. I look forward to hearing the testimony and thank the witnesses for being here today.

Thank you Mr. Chairman.

Mr. WISE. I turn to the gentlewoman from Utah Ms. Shepherd, for any remarks she might wish to make.

Ms. SHEPHERD. Thank you very much. I will pass on heaven.

Mr. WISE. You will get another chance at it, don't worry.

Ms. SHEPHERD. Thank you, Chairman Wise, and Ms. Molinari, for the opportunity to speak today. I feel honored to be a Member of Congress and honored to be speaking here at my first hearing on this subcommittee, because I consider what is going to happen here among the things that will be most important to this Congress and this country this year.

In some ways the challenge before us is daunting. We have really neglected our infrastructure needs for so long that we spend a smaller and smaller share of our gross national product on infrastructure needs now than we did a decade ago, and considering inflation that is an appalling fact.

There is more to do than we can possibly do and our decisions have to be made very carefully. We must have two goals. We need now to provide jobs so that those charts that sit over there, that flat chart that shows virtually no improvement over the course of the year, changes; and we have to increase the number of taxpayers who are funding these projects by increasing the number of people who have jobs, not increasing the amount of taxes that they pay.

Luckily, an enormous amount of work has already been done and we have some excellent funding mechanisms in place in ISTEA, in the water programs, and in the revolving State credit funds.

We have heard from Governors of several States yesterday who presented a compilation of projects that are ready to go in the next 60 to 90 days. Over $6 billion worth of work that meets carefully crafted and widely support criteria set forth in ISTEA.

In my own State, a $50 million investment now would create 500 jobs and upgrade the number of transportation arteries that would benefit the economy of Salt Lake Ccunty into the next century. These projects include important rehabilitation work on I–80 and I–15, which run through the county.

Yesterday, Governor Edgar of Illinois shared his own experience with how infrastructure spending can create jobs in the long-term. Planned infrastructure improvements in northern Illinois were expedited so that a firm that would employ 2,500 people could establish itself.

While this bill is a vision of how infrastructure spending will help the economy, we must conversely be concerned that the lack of infrastructure investment does not hamper the economy and, unfortunately, we in Utah are in such a position.

The U.S. DOT has estimated in 1991, 134,000 bridges are rated as structurally deficient and that congestion has caused over a billion hours of delay on interstates and other principal arteries. These delays in 1989 were estimated to cost over $34 million. Salt Lake County is full of such bridges. Our surface maintenance is dangerously behind, and we simply must face up to these problems.

Furthermore, Salt Lake County has completed all the engineering work and purchased the right-of-way for an existing rail system that would allow us to tie together 70 percent of the population

which lives along the Wasatch Front Corridor and comprises the essence of Utah, really, in terms of population.

Because we live in a valley, which is a high desert valley, subject to temperature inversions, we have a very difficult time meeting our EPA clean air standards, and I do not believe that unless Utah is able to put in a light rail system very soon will we be able to do that in the future. And I think that if we don't put in a light rail very soon, we also will not be able to keep up with the road systems that are required in order to carry the cars going back and forth.

I believe that ISTEA should be fully funded and if we need to make changes to ensure that States can have access to these funds, we should. In ISTEA, we also have a funding mechanism that could be easily amended to target more funds to large metropolitan areas and to environmental improvements in our transportation network.

As part of an infrastructure investment package, for example, we can reduce matching requirements for projects that help States meet their Clean Air Requirement Act. We can provide additional funding for improvements in the Northwest Rail Corridor and for establishment of five high speed rail corridors that have already been selected by the Department of Transportation.

The problem, as we all know, will be coming up with ways to fund this investment, and I am ready to work with my colleagues in determining a program and building support for it. It is pretty clear to me that if infrastructure spending meets both other goals, i.e., it encourages economic development in the long run, then our money is extremely well spent. We will add taxpayers both in the short run and the long run, and we will remove many people from the unemployment rolls, especially in the short term and allow the quality of their lives to return to what we once remember it was.

I firmly believe carefully selected long- and short-term investment must be combined with responsible deficit reduction if the U.S. economy is to recover and a quality future is to be preserved for our children, and that is what we are all working for.

I am looking forward to working hard with Chairman Wise and Chairman Mineta to accomplish these goals. Thank you very much.

Mr. WISE. I thank the gentlewoman for her remarks.

I recognize the gentleman from Massachusetts, Mr. Blute.

Mr. BLUTE. Thank you, Mr. Chairman, and I will be very brief.

I want to also commend you and Ms. Molinari for moving so quickly and forcefully in this area, and also to the full committee Chair for his emphasis that he is putting on infrastructure.

My district in Massachusetts is much like everyone else's, we need jobs and we have severe infrastructure needs, and I think this subcommittee and this full committee can combine to help on those two fronts, and I look forward to working with this committee to see that that happens for the good of the entire country.

Thank you, Mr. Chairman.

Mr. WISE. I recognize the Vice Chair of this committee, Mr. Blackwell, for opening remarks he might wish to make.

Mr. BLACKWELL. Thank you, Mr. Chairman.

Mr. Chairman, I am proud to be a member of this subcommittee under your able leadership. You have convened economists, may-

ors, Governors, and now Members of Congress, all within the span of a little more than 2 weeks.

We are meeting the voters' mandate. Our schedule could not be possible without the cooperation of Ms. Molinari and our colleagues from the other side of the aisle. I am also proud to serve with them.

The President, on February 17, indicated to us an economic recovery program will be prepared to quickly respond to legislative initiatives that reflect the best and current thinking of those on the front lines.

Those involved in the theory and those involved in the practice of present day economics have told us many things during the course of our hearings. Their views have been recorded, however. They have also, by their testimony, raised many more questions. President Clinton has encouraged us to discuss the questions, flush out the issues, disagree if we must, and ultimately make some decisions.

We will make some decisions, but first we will continue to seek views on the many questions that remain. Among those questions, which is one that came to my mind during yesterday's hearing. The Governors indicated they preferred funding existing programs under the Clean Water Act, ISTEA, and the community development block grants program. I wonder what the Governors would say if we had to make a choice between providing clean water money, surface transportation money, and community development block grants. What should that choice be?

We have heard many suggestions about the creative Public Works programs, programs other than highways, bridges, water and sewer, programs which target schools, hospitals, parks, and other such capital projects. We heard much about the programs that aid our environment in cleanup efforts and, at the same time, there has been a consistent call for urgency and any initiatives we may undertake.

The question is can we be creative and forward looking and still move a short-term economic stimulus package through the State and local governments in time to have a real impact on the economy? Can we create new programs that have not already been contemplated by the Conference of Mayors and National Governors Association in their "Projects Ready-To-Go" packages?

Another question we should consider, if we enact an economic stimulus program requiring the Department of Commerce to promulgate regulations within a short specified time that requires the distribution of funds by Federal agencies within truncated time periods and that mandates the expenditure of those funds by recipients within a specified number of days, are we moving too fast?

Perhaps the most important question remaining is what revenue sources will we draw upon to pay for an economic stimulus program? If you operate on a pay-as-you-go basis, will we take from existing resources or will we find new revenue sources? Will we enact an energy tax on imports or impose a tax on domestic gasoline?

Another important question is what role will and should our central bank, the Federal Reserve System, play in any economic recovery program? Should the Congress continue to allow this power-

ful institution to operate independently, making judgments and setting fiscal policy, sometimes without regard to the direction in which the President and Congress seek to take the country? Is there need for reform of this institution, created in its modern form in 1913?

How can we build on the good things about the economy? Consumer confidence appears to be on the rise and more Americans are spending, and spending more. Fewer are joining the unemployment lines and interest rates remain reasonably low.

While the index of leading economic indicators has increased over the past 3 months, and while we are experiencing continued growth, Americans are still standing in unemployment lines, working people are sleeping in the subway stations, and too many of our citizens are poor and hungry. We have encouraged hope to those who have no reason to hope.

Mr. Chairman, I am proud to serve on this subcommittee. As a result of the leadership you have provided, I hope to be proud of the work we have done. There is an urgency, however. We must be sure that any program we enact treats the real problems of this Nation, not just those for the few and powerful.

And I will just end, Mr. Chairman, by saying there is a lot of criticism of our President, and I believe that we who believe in him, we who want to support his program and cooperate, ought to speak out for him.

All the problems we have had over the last 12 years, and the President is supposed to solve them in just 2 weeks? We know it is nonsense, and when they say something bad about him, the people who support him ought to say something good about him, and we should cooperate when we can.

[Mr. Blackwell's prepared statement follows:]

STATEMENT OF CONGRESSMAN LUCIEN E. BLACKWELL
BEFORE THE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
HEARING OF FEBRUARY 3, 1993
INVESTING IN AMERICA'S INFRASTRUCTURE:
SHORT AND LONG-TERM STRATEGIES
THE NEED FOR ECONOMIC STIMULUS

Mr. CHAIRMAN, I AM PROUD TO BE A MEMBER OF THIS SUBCOMMITTEE UNDER YOUR ABLE LEADERSHIP. YOU HAVE CONVENED ECONOMISTS, MAYORS, GOVERNORS, AND NOW MEMBERS OF CONGRESS, ALL WITHIN THE SPAN OF A LITTLE MORE THAN TWO WEEKS. WE ARE MEETING THE VOTERS' MANDATE. OUR SCHEDULE COULD NOT BE POSSIBLE WITHOUT THE COOPERATION OF MS. MOLINARI AND OUR COLLEAGUES FROM THE OTHER SIDE OF THE AISLE. I AM ALSO PROUD TO SERVE WITH THEM. WHEN THE PRESIDENT ON FEBRUARY 17TH, INDICATES TO US HIS ECONOMIC RECOVERY PROGRAM, WE WILL BE PREPARED TO QUICKLY RESPOND WITH LEGISLATIVE INITIATIVES THAT REFLECT THE BEST AND CURRENT THINKING OF THOSE ON THE FRONT LINES.

THOSE INVOLVED IN THE THEORY, AND THOSE INVOLVED IN THE PRACTICE OF PRESENT DAY ECONOMICS HAVE TOLD US MANY THINGS DURING THE COURSE OF OUR HEARINGS. THEIR VIEWS HAVE BEEN RECORDED. HOWEVER, THEY HAVE ALSO, BY THEIR TESTIMONY, RAISED MANY MORE QUESTIONS. PRESIDENT CLINTON HAS ENCOURAGED US TO DISCUSS THE QUESTIONS, FLUSH OUT THE ISSUES, DISAGREE, IF WE MUST, AND ULTIMATELY, MAKE SOME DECISIONS.

WE WILL MAKE SOME DECISIONS. BUT FIRST, WE MUST CONTINUE TO SEEK VIEWS ON THE MANY QUESTIONS THAT REMAIN. AMONG THOSE

QUESTIONS IS ONE WHICH CAME TO MY MIND DURING YESTERDAY'S HEARING. THE GOVERNORS INDICATED THAT THEY PREFERRED FUNDING EXISTING PROGRAMS UNDER THE CLEAN WATER ACT, ISTEA AND THE COMMUNITY DEVELOPMENT BLOCK GRANTS PROGRAM.

I WONDERED WHAT THE GOVERNORS WOULD SAY IF WE HAD TO MAKE A CHOICE BETWEEN PROVIDING CLEAN WATER MONEY, SURFACE TRANSPORTATION MONEY AND COMMUNITY DEVELOPMENT BLOCK GRANTS. WHAT SHOULD THAT CHOICE BE? WE'VE HEARD MANY SUGGESTIONS ABOUT CREATIVE PUBLIC WORKS PROGRAMS, PROGRAMS OTHER THAN HIGHWAYS, BRIDGES, WATER AND SEWER, PROGRAMS WHICH TARGET SCHOOLS, HOSPITALS, PARKS OR OTHER SUCH CAPITAL PROJECTS. WE'VE HEARD MUCH ABOUT PROGRAMS TO AID OUR ENVIRONMENTAL CLEAN-UP EFFORTS. AT THE SAME TIME, THERE HAS BEEN A CONSISTENT CALL FOR URGENCY IN ANY INITIATIVE WE MAY UNDERTAKE. THE QUESTION IS CAN WE BE CREATIVE AND FORWARD LOOKING AND STILL MOVE A SHORT-TERM ECONOMIC STIMULUS PACKAGE TO THE STATES AND LOCAL GOVERNMENTS IN TIME TO HAVE A REAL IMPACT ON THE ECONOMY. CAN WE CREATE NEW PROGRAMS THAT HAVE NOT ALREADY BEEN CONTEMPLATED BY THE U.S. CONFERENCE OF MAYORS AND THE NATIONAL GOVERNOR'S ASSOCIATION IN THEIR "PROJECTS READY TO GO" PACKAGES?

ANOTHER QUESTION WE SHOULD CONSIDER IS, IF WE ENACT AN ECONOMIC STIMULUS PROGRAM WHICH REQUIRES THE DEPARTMENT OF COMMERCE TO PROMULGATE REGULATIONS WITHIN A SHORT, SPECIFIED TIME, THAT REQUIRES THE DISTRIBUTION OF FUNDS BY FEDERAL AGENCIES WITHIN TRUNCATED TIME PERIODS AND THAT MANDATES THE EXPENDITURE OF THOSE FUNDS BY RECIPIENTS WITHIN A SPECIFIED NUMBER OF DAYS, ARE WE MOVING

TOO FAST? PERHAPS THE MOST IMPORTANT QUESTION WHICH REMAINS IS WHAT REVENUE SOURCES WILL WE DRAW UPON TO PAY FOR AN ECONOMIC STIMULUS PROGRAM? BECAUSE WE OPERATE ON A PAY AS YOU GO BASIS, WILL WE TAKE FROM EXISTING RESOURCES OR WILL WE FIND NEW REVENUE SOURCES? WILL WE ENACT AN ENERGY TAX ON IMPORTS OR WILL WE IMPOSE A TAX ON DOMESTIC GASOLINE?

ANOTHER IMPORTANT QUESTION FOR ME IS WHAT ROLE WILL AND SHOULD OUR CENTRAL BANK, THE FEDERAL RESERVE SYSTEM, PLAY IN ANY ECONOMIC RECOVERY PROGRAM? SHOULD THE CONGRESS CONTINUE TO ALLOW THIS POWERFUL INSTITUTION TO OPERATE INDEPENDENTLY, MAKING JUDGMENTS AND SETTING FISCAL POLICY, SOMETIMES WITHOUT REGARD TO THE DIRECTION IN WHICH THE PRESIDENT AND THE CONGRESS SEEK TO TAKE THE COUNTRY? IS THERE A NEED TO LEGISLATE REFORM OF THIS INSTITUTION, CREATED IN ITS MODERN FORM IN 1913? HOW CAN WE BUILD ON THE GOOD THINGS ABOUT THE ECONOMY? CONSUMER CONFIDENCE APPEARS TO BE ON THE RISE, AND MORE AMERICANS ARE SPENDING AND SPENDING MORE. FEWER ARE JOINING THE UNEMPLOYMENT LINES. AND, INTEREST RATES REMAIN REASONABLY LOW. BUT WHILE THE INDEX OF LEADING ECONOMIC INDICATORS HAS INCREASED OVER THE PAST THREE MONTHS, AND WHILE WE ARE EXPERIENCING CONTINUED GROWTH, AMERICANS ARE STILL STANDING IN THE UNEMPLOYMENT LINES, WORKING PEOPLE ARE SLEEPING IN SUBWAY STATIONS, AND TOO MANY OF OUR CITIZENS ARE POOR AND HUNGRY. WE ENCOURAGE HOPE FOR THOSE WHO HAVE HAD NO REASON TO BE HOPEFUL.

MR. CHAIRMAN, I AM PROUD TO SERVE WITH YOU ON THIS SUBCOMMITTEE. IT IS MY HOPE THAT AS A RESULT OF THE LEADERSHIP YOU HAVE DEMONSTRATED, I WILL SOON BE PROUD OF THE WORK WE HAVE DONE.

THERE IS AN URGENCY, HOWEVER, WE MUST BE SURE THAT ANY PROGRAM WE ENACT TREATS THE REAL PROBLEMS OF THIS NATION, NOT JUST THOSE FOR THE FEW AND POWERFUL.   THANK YOU.

Mr. WISE. I thank the gentleman for his remarks, and turn to the gentlewoman from Missouri for any opening remarks she might have.

Ms. DANNER. No, thank you.

Mr. WISE. We are delighted to have you join with us, a member of the full committee, the gentlewoman from Washington, Ms. Cantwell.

Ms. CANTWELL. Thank you, Mr. Chairman, and I appreciate the committee's exhaustive efforts in holding these hearings and trying to get to the bottom line of how to have infrastructure investment result in both short-term and long-term economic growth. I also appreciate the full committee Chairman's efforts in this regard, as well.

I just want to mention today some of the issues facing us in the West and in the Puget Sound area, despite some of the good news on the economic front, last week Boeing's announcement of major job layoffs in the Puget Sound area has caused us major concerns, and that is because not only of their job loss but the other jobs that might result; job loss for subcontractors and tradesmen and other consumer services that support Boeing.

If you combine this vital economic situation with our region's transportation problems, an economic stimulus package is very much what we desperately need. I believe this package should consider both the immediate problems as well as long-term economic growth.

As mentioned, the country does suffer from the fact we have about 2 billion hours of delay per year due to traffic congestion. In the Puget Sound area, we are expecting that problem to continue. By the turn of the century, population in our region is expected to grow by 52 percent. In my congressional district alone, we had a 49 percent population increase over the last 10 years. Taking into account that there are a higher number of trips than just the population, that results in traffic increases of about 78 percent.

I think this committee should act quickly on these issues, and I am very interested today in hearing the remarks of other Members about their ideas, both on ISTEA funding and other programs.

Ms. DeLauro and Mrs. Lowey will talk about a revolving loan fund. I would like to suggest a concept to be considered from Washington State. In 1985, we created a public works trust fund, which is a revolving loan fund that loans to local governments for sewers, bridges, roads, and I think that it has played a critical role in our economic stimulus in the last several years.

Two years ago, we added an element of financing for our timber-depressed communities to finance new infrastructure, and I think that will be a valuable asset.

So I look forward to the Members' remarks and working on this concept of a revolving loan fund with the committee.

Mr. WISE. I thank the gentlewoman for her remarks and we are delighted to call the first panel.

We appreciate your participation and your patience. The gentlewoman from New York, Mrs. Lowey, and gentlewoman and former member of this committee, Ms. DeLauro. We welcome you back and look forward to your remarks, and also your kindness during your new assignment.

TESTIMONY OF HON. NITA M. LOWEY, A REPRESENTATIVE IN CONGRESS FROM NEW YORK; AND HON. ROSA L. DeLAURO, A REPRESENTATIVE IN CONGRESS FROM CONNECTICUT

Mrs. LOWEY. Mr. Chairman, I would like to, first, request my full written statement be included in the record.

Mr. WISE. Without objection.

Mrs. LOWEY. I wanted to thank you, Ms. Molinari, and, of course, the distinguished Chairman of the full committee. We do appreciate having the opportunity to come before you to discuss the role that investment in our Nation's infrastructure can play in restoring growth to our economy, and I want to compliment you and the entire committee for organizing this timely series of hearings. I truly look forward to working with you on these measures so that we can get our economy moving again.

More than a year ago, Rosa DeLauro and I joined forces to press for a national strategy on environmental infrastructure that would enable the United States to regain its economic edge while protecting the environment and improving our quality of life. We focused our efforts on sewage treatment plants and other clean water infrastructure, because our Nation faces an estimated $130 billion in unmet wastewater treatment needs.

Without adequate Federal aid, this burden will wreck State and municipal budgets, cripple local economies, and rob our waterways and their environmental and economic vitalities. But in the midst of this dire need lies an unprecedented opportunity. The very investments that are needed to upgrade our environmental facilities can also expand the economic horizons of our communities. At a time when the national unemployment rate remains at 7.3 percent, investments in modernizing sewage treatment plants can create tens of thousands of jobs in the short-term and provide the capacity for years of economic expansion.

These expenditures are possible, however, only with substantial Federal aid. The time to invest is now, and for the first time in years, we have an Administration that understands what these investments can mean for our economy and our communities.

As you all know, President Clinton has announced his plans to offer an economic stimulus package that features increased investments in the Nation's infrastructure. We would like to take this opportunity to share with the committee our proposal for maximizing the economic and environmental impact of these investments. The best strategies for investing in our economy are not lying all over Washington, they are lining the shelves of State capitals and town halls all across our Nation.

An economic stimulus package must focus on ready-to-go projects that are part of regional strategies designed to promote long-term, environmentally sustainable growth. The Clean Water Act's planning requirements offer, perhaps, the best means for targeting Federal dollars toward productive, environmentally-sound infrastructure projects.

To that end, our legislation would provide in fiscal year 1993, $3 billion in new funding to the Clean Water Act's State revolving loan fund program and an additional $300 million in the rural development administration's water pollution control grant program.

These two programs are well suited to a stimulus package because they offer proven mechanisms for delivering Federal assistance to communities seeking to expand their economies while protecting their natural resources.

In order to illustrate how easily and quickly these funds could begin putting Americans back to work, we have brought with us a compilation of several hundred water pollution control projects from across the country that could begin within 90 to 180 days. And this list represents only a fraction of the projects that are ready to go.

To ensure our regulation quickly translates into new jobs, the bill establishes special requirements to mandate rapid obligation of SRF funds. We worked closely with the States of New York and Connecticut and a number of national groups to develop a workable mechanism for releasing these funds as quickly as possible.

Our legislation would raise Federal funding for the SRF program from approximately $2 billion to $5 billion, a sizable increase but a necessity in light of the massive costs facing our communities.

A study issued two weeks ago by the water pollution control administrators, which surveyed the needs of all 50 States, called for annual funding levels of $5 billion over the next four years to help States meet these enormous costs. The study also found that the funding—that funding the SRF at that level could generate 350,000 new jobs each year.

Our legislation, which raises Federal support for the SRF to $5 billion, would enable us to meet that need this year and provide a powerful stimulus to our still lagging economy.

Mr. Chairman, I request that a three-page summary of the study be included in the record along with my prepared statement.

The bill that we are presenting today is the short-term component of a long-range strategy for strengthening our environmental infrastructure, creating a foundation for sustainable economic growth, and protecting our natural resources.

Later this year, we plan to reintroduce H.R. 5070, a seven-year reauthorization of clean water funding programs, that would provide our communities the assistance they need over the long-term to tackle our infrastructure needs and capitalize fully on the economic benefits of these investments.

Mr. Chairman, there is a growing consensus in Congress and the Nation that investments in our infrastructure can increase American economic performance and improve our quality of life. We believe that targeted investments in environmental infrastructure can maximize these benefits while, at the same time, preserving our natural resources.

I would like to conclude by thanking the Chairman and the members of the subcommittee for this opportunity to outline our legislation. Working with the Clinton administration, the 103rd Congress must develop a package of promotion that will spur our economy forward and lay a foundation for long-term growth.

We truly look forward to working with you on this critical task, and we would be happy to answer any questions.

Mr. WISE. Thank you.

The gentlelady from Connecticut.

Ms. DeLauro. Thank you, Mr. Chairman, and it is indeed a pleasure to be back in this room again on this side of the table. I spent many hours in this room, most of them happy.

And I do want to congratulate the Chairman of the full committee, Mr. Mineta, and thank him for all of his help during my first term here and being a real mentor.

I also might add I think the work of the Public Works and Transportation Committee at last session and the reauthorization of the transportation bill and ISTEA was probably, in my view, one of the only pieces of legislation that we completed that directly addressed the critical problem in this Nation, and that is the question of jobs and long-term investment in this Nation's future.

I want to congratulate the new Chairman of the committee, Mr. Wise. It is a pleasure to be here with you and with Ms. Molinari, and I know that we are in good hands in this effort.

And as a former member of this Economic Development Subcommittee, I know the interest of the entire panel in the issues, and the two most pressing issues that address the fundamental needs of our country today, and that is jobs and infrastructure.

Both Congresswoman Nita Lowey and I are delighted to be here this morning. We come with a shared belief that nothing on the national agenda is more vital that taking immediate steps to deal with the economic challenges that face our Nation. And we are excited this morning to be here with you and to talk about the prospects of addressing both of these problems with new legislation that we have written that will create jobs while building our environmental infrastructure and trying to help clean up our environment.

We are still in a time of deep recession in many parts of this country. In my own State of Connecticut, unemployment, which is now at 7.4 percent, remains high. More than 200,000 Connecticut people have lost their jobs since the recession began in the Northeast over four years ago.

In Connecticut and New York and so many other States, the construction trades, in particular, are suffering from high unemployment rates. Reaching up to 50 percent in some cases. And any economic recovery plan which addresses job creation through the trades will be welcome news to the thousands of folks who are now collecting unemployment in my State and across this country.

The statistics point out an undeniable fact. We are not only failing to address important short-term economic problems that afflict our States and communities, but we have failed to invest in the basic infrastructure that any nation has to have to be able to create and sustain long-term growth and the jobs and the prosperity that flow from them.

Our economic and our structural infrastructures are crumbling and unmet needs in both areas stretch into the hundreds of billions of dollars.

We really cannot wait for the economy to turn around on its own. It appears that is not going to happen. Overall, the country continues to lose jobs at an alarming rate. As the recession grinds on, businesses are cutting employees and thousands of layoffs are impending.

Let me just mention last week in Connecticut to you. In one day, one company notified more than 6,700 people that they were going to lose their jobs. And this picture is not going to improve unless we do something about it.

The reason that Congresswoman Lowey and I are here today is that our work together has shown part of the solution to creating the thousands of new jobs that we need can be found in the task of rebuilding our Nation's environmental infrastructure.

Over the course of the last Congress, Nita and I worked together very closely with a strong and an interested coalition of business, labor and environmental groups, groups, I might add that normally do not coalesce around issues, they normally need three rooms in which for folks to meet, and they were all meeting in the same room with us.

We met to craft legislation that would permit our communities to meet pressing environmental infrastructure needs, to leverage opportunities for growth and to create jobs.

The bill, which is H.R. 5070, which we are going to reintroduce later this month, revitalizes the Clean Water Act's State revolving loan fund, and the national estuary program.

But the reason that labor and business and environmental groups joined in support of the legislation is simple, and that is that good environmental infrastructure policy makes for good economic policy. For every billion dollars spent on environmental infrastructure, it creates up to 5,700 new jobs and these are just jobs during the construction phase.

The short-term jobs turn into long-term prosperity that come with the kind of sustainable growth only possible if we first act to meet these basic infrastructure needs.

What became very clear quickly, is that as much as infrastructure was important to long-term economic vitality, it could be the stimulus for short-term job creation, so that the concept behind H.R. 5070 could be quickly and directly applied to trying to create jobs immediately.

In order to be effective at what we wanted to try to do, is to incorporate existing proven mechanisms for job creation and not reinvent an entire new structure.

Nita and I will introduce the legislation later today.

As it has been pointed out, the plan would use the State revolving fund program and give it a one-year $3 billion infusion of funds to jump-start job creation while maintaining a needed focus on long-term environmental infrastructure needs.

The legislation also provides an additional $300 million to the Farmers Home Administration programs used to fund the Clean Water Act and the Safe Drinking Water Act for small, disadvantaged communities.

The legislation is really crafted to assure that the funds provided are translated into real jobs this year. It requires States to fund ready-to-go infrastructure projects that will have people, working in a matter of months.

Nita mentioned, and I will point out to you, what we put together by the end of last year. This is about 400 or 500 projects now ready to go in just the coastal States. It is not nearly what could be available nationwide. It is designed to be folded into a

larger effort that would be put together by this committee and the Administration to forge an economic stimulus package and, obviously, it is our view we need to work on this and bring economic aid and immediate jobs for working families.

Let me just say in conclusion that the challenge to this committee and to the Congress and to the President is to move boldly and quickly, to do something about long-term unemployment. I have to tell you that we in Connecticut, we don't have more time for studies, for extensive commissions and reports, we know what the problem is, it is a lack of jobs. And that is what the issue is, what we are trying to address in this legislation and to try to find some sort of a solution.

Mr. Chairman, I thank you for the opportunity of being here this morning, and I, along with my colleague from New York, we make a plea to all of you to move quickly, like the Public Works and Transportation Committee did in the last session of Congress, to bring some relief to people in this Nation who are truly hurting and looking to us for leadership, and this country is looking to us for leadership to turn this economy around.

Thank you very, very much for your kind consideration, Mr. Chairman. I will be happy to answer any questions you might have.

Mr. WISE. I thank both of you for your appearance here, and for this legislation. I am a big advocate of water and sewer construction, and it seems to me in a quick economic package that is something that could be on the street fairly quickly.

I think every community has projects that are backed up and sitting on the shelf. The engineering has been done, the analysis has been done, they are ready to go if they can get the funding for it. I know that is true in my State and certainly every State I have had any contact with.

I would turn to the gentlewoman from New York for any questions she may have.

Ms. MOLINARI. Thank you.

I want to thank our colleagues for coming before the Subcommittee today. I have to note, Rosa, when you said it is unusual for labor, management and environmentalists to get together in the same room, we had a similar experience yesterday when Republican and Democratic governors came to the same table. And when it seems we are talking about Federal money, they can all agree on how they want it spent. So it is not a terrific phenomenon.

I want to thank you for your testimony. I disagree on a few certain points. I do believe we are on the edge of an economic recovery and housing starts that have been flat for 1992 are showing us we are about to get back on our feet. Nonetheless, it has not been accompanied by serious job growth in any area of the country and most specifically the Northeast. In facing a deficit and in facing the difficult decisions we have to make, we must identify projects that might jump-start the economy and may create jobs. Projects, that if nothing else, will provide valuable environmental infrastructure improvements so that it is always going to be a net gain in terms of the monies we put in.

And the project you described does that, that it is not just jobs for jobs sake, it is a project that desperately needs to be done, and we have several of those throughout our Nation.

Just as an aside, the National Governors Association did come forward and present their case yesterday, and as part of their plan they endorse fully funding ISTEA, but they also endorsed the Clean Water Act and making some of these infrastructure improvements through the State revolving fund as you suggested today.

So you have the unanimous support of the Nation's Governors behind the ideas you are proposing, so I appreciate your testimony. I know you both have spent an awful lot of thoughtful work in putting this proposal together, and representing the district that I do, I can certainly sympathize with your concerns.

Mr. WISE. I recognize the full committee Chairman for any remarks, questions he might have.

The CHAIR. Thank you very much, Mr. Chairman.

I want to thank both Nita and Rosa for their very fine testimony.

I am wondering, are there, given the fact we want to move this very quickly and get those jobs out there, the criteria has generally been within 90 days. You say there is an adequate backlog sitting on the shelves of local and State government. Do you envision any truncating or waiver of any environmental impact report, environmental impact statement, any other requirements that would, that are normally in the process? And if they are not to be truncated or waived, how do we know how much in programs or projects we have ready to go within 90 days?

Is that something that the AIWS study might tell us or give me some guidance? Because every time I talk about programs ready to go, I keep getting the response, we want more specificity.

So is there something you could provide us to give us that punch that says, yes, these are rolled up plans on shelves, ready to go?

Ms. DELAURO. Certainly, Mr. Chairman, we can provide that information about the list of projects that have been compiled and find out if they are—and get any additional information that you might need. About eighty percent of the States have a State revolving fund.

As you know, the process is that the State makes the selections based on their amount of funding and these are often projects that may have gone through a process already but without the benefit of having the financial resources.

But what we can do is get a look at those that have been listed and find out which, in fact, have been through the various processes so that, in fact, they are absolutely ready to go.

Mrs. LOWEY. Just to add to that, Mr. Chairman, our bill waives the 20 percent matching funds.

The CHAIR. I was going to ask about that. What about the 20 percent, because there are many localities and States that don't have the 20 percent to match?

Mrs. LOWEY. In fact, in compiling the list of projects and in talking to people and using this coalition, which is so exciting, just to digress for one second, and to emphasize Rosa's point that it is so unique that New York and Connecticut and States around the country, to have the environmentalists and the business community, the developers, and the labor representatives sitting in one

room and forging a powerful coalition to support this bill. We all know how difficult that is.

And one of the problems that we have identified is that the States are in such dire economic straits that the 20 percent match was a real difficult factor. So that we have included in this bill a waiving of the 20 percent match.

The other thing we have included for small communities is the authorization for the States who are going to be administering this program to provide 90 percent.

The CHAIR. Under the RDA program?

Mrs. LOWEY. Precisely, for the smaller communities.

The CHAIR. Let me ask you on that, it seems to me there are two pieces of what we are looking at: One is in terms of a long-term investment program, in terms of infrastructure, transportation, et cetera, that bring us productivity benefits over a long period of time. The other piece of it is a short-range economic stimulus program.

Is your 20 percent waiver as its relates to the economic stimulus or also as it relates to the long-term investment program or do you not make a distinction between short-term stimulus versus long-term investment?

Mrs. LOWEY. Let me be specific with that and I am sure Rosa could comment, too.

The Long Island Sound is in our community and there are similar estuaries around the country. There is a constant battle, as we know, between economic development and preserving the environment, preserving valuable resources.

In the short-term, by upgrading our wastewater treatment plants, we are attacking that 50 percent unemployment rate in the construction trades by putting them to work and upgrading our sewage treatment plant.

In the long run, we are providing for responsible growth in those communities because, unless we upgrade our sewage treatment plants we cannot allow responsible growth to continue.

So in the short run, we can provide jobs, but I think the message that we have both emphasized, we are doing something that is essential. This infrastructure has been neglected, certainly in our communities. And these projects throughout the country reflect the fact that this is something that should be done.

In the last 10 years, the Clean Water Act funds have almost disappeared. So we are providing an essential infusion of funds to deal with our infrastructure needs. We are providing a short-term stimulus to the economy by providing jobs in the construction trades, and that kind of multiplier effect certainly, and in the long run we add to economic growth.

The CHAIR. And, then, let me talk about your $5 million program, though, you are not differentiating between short-term stimulus versus long-term investment.

Mrs. LOWEY. Yes.

Ms. DELAURO. Let me just add, Mr. Chairman, because I think, to add to what Nita said, the waiving of the 20 percent is for the year. It is short-term to deal with the stimulus.

Obviously, this has long-term implications. The further, in terms of the short-term stimulus, is that the States then have to take a

look at the utilization of their regular SRF funds and are required to spend 40 percent of those regular funds and 40 percent of the stimulus funds within the first six months. So that we are not just dragging things around here; people saying they have something to go and nothing is ready to go. It is really you use it or lose it.

And then the next benchmark is, after a year, you have the additional 60 percent of your own regularly allocated SRF funds plus the 60 percent of the stimulus funds. All of that has to be expended, 100 percent, in that first year, otherwise the money goes back to the Treasury.

This does have the kind of—obviously, it has the long-term implication because of the kinds and the types of projects that we are working on. Otherwise, as you know, States get to the point they can't do these things. You cannot separate storm and sanitary sewers today, given the resources that are involved in doing that and without the effort. But if you can make some——

The CHAIR. That is my point. Storm, sewer or, let's say, a storm line, storm—we have a combined sewer overflow problem.

Ms. DELAURO. Right.

The CHAIR. That may be a quicker way to get jobs than building a water pollution control plant that may be longer in terms of construction. Let's say three years, compared to laying pipes that is going to be done within a year.

I recognize that the water pollution control plant is going to have long-term productivity benefits, but maybe that is part of a long-term investment program and not part of a short-term stimulus program, unless it is ready to go. I guess that is my point.

I am trying to make a distinction between the short-term stimulus that creates jobs and helps get the economy running, and yet we have other stories in this morning's paper about whether or not the economy is rebounding. Now, to me, I don't really buy these leading economic indicators, if in fact the economy hasn't turned around. You can have all the leading economic indicators saying technically the recession has ended, but if, in fact, people are not getting back to work, if jobs are not being created, then the LEI's to me don't mean that much.

So what I am trying to do is say, yes, Mr. President, we need a short-term stimulus program. You have talked about 20 billion. Governor Ben Nelson of Nebraska says we may be talking about $10 billion, $20 billion, $30 billion range, and I guess what I am trying to say is I want to make sure that what we do in the short-term creates jobs quickly, gets the jobs started, and then as the economy rebounds, then we will go to the traditional funding mechanism, et cetera, that we have, whether ISTEA or State revolving funds, underwater pollution control issues or other programs.

Ms. DELAURO. That is essentially how this was designed, Mr. Chairman. It is a year. It is a year infusion of $3 million to get us off the ground and the 300 million. That is to try to get some sense of where we come out at the end of that year. And through a proven mechanism, something that is already in place and ready to go.

The CHAIR. I am convinced. I just want to thank you for the time and effort and thoughtfulness you have put into this suggestion.

Mrs. LOWEY. We thank you very much for giving us this opportunity.

Mr. WISE. The gentleman from Arkansas, Mr. Hutchinson, any questions? I would also point out we have plenty of opportunity—are you all running right now?

Mr. HUTCHINSON. Will you stay for another question?

Ms. DELAURO. Oh, sure. Absolutely.

Mr. WISE. I would report to the committee we have several other Members waiting to testify and we have plenty of opportunity to ask questions and a lot of good ideas coming.

Mr. HUTCHINSON. I will be very brief. Thank you, Mr. Chairman.

Ms. DELAURO. We will try to be brief.

Mr. HUTCHINSON. As a freshman who was elected, along with my colleagues, in an atmosphere in which this institution was held up for ridicule because of some of the kinds of projects we have funded in the past; with that in mind, if you accept the proposition the infrastructure needs to be rebuilt, and I do accept that; and if you accept the assumption that in order to have any kind of economic stimulation it has to be done quickly, like in the 60 to 90 day category, and I accept that; and if you accept the assumption that that can be accomplished, which I think is a little more debatable; but with those assumptions in mind, is there a risk, do you feel, in us falling into the trap of funding programs that, given more time and greater scrutiny we might find do not have merit or are not justifiable? And if that is a danger, how do we avoid doing that?

Mrs. LOWEY. Well, first, let me say that these projects that we have compiled have been on the shelves and they are on a list. They are projects that have been evaluated by the appropriate State agencies.

I feel very strongly, and we responded to Chairman Mineta before, that although these projects to be approved in part of this economic stimulus package must bring with it an immediate infusion of resources to create jobs, they have to have merit in the long run. We don't want to just operate quickly and pull these projects out unless they are performing a vital service.

So these projects have been evaluated and certainly, from my perspective, as a Member of this Congress, I take full responsibility. I would assume every member of this committee takes full responsibility for the evaluation of these projects to be sure that they are real and that they can do the job, that they can create jobs and that they have benefit in the long run.

Ms. DELAURO. The State revolving fund program, I think, has been regarded as having been highly successful in trying to raise the level of water quality in the United States. I think it gets very high marks all around for the way in which it has worked, the cooperative effort between the State, local and Federal Government, so that, in fact, States can proceed with some projects that they are in need of and yet cannot pick up the whole tab themselves.

So that the program itself is one that is highly regarded nationally and one that ought to, and one that ought to continue. And the State will make determinations on those programs that they feel could go forward and give them the best opportunity for, one, creating economic activity and also addressing a need in terms of water quality.

So that I think we have a proven system here. You are never going to be 100 percent foolproof that something is the best or it

is less than the best, but as I say, we have a tried-and-true system here.

We also have a mechanism within this bill, which I mentioned before, that allows us to take a look at whether or not the project is going forward, it is doing what it says it is going to do, and we can stop funding at a six month level or money that is not used is going to go back to the Federal Treasury. So you have two benchmarks in addition to a project and a program that has demonstrated success.

Mr. HUTCHINSON. Thank you, Mr. Chairman.

Ms. DELAURO. Thank you.

Mr. WISE. I thank you the gentleman from Arkansas and thank our panel very, very much.

Mrs. LOWEY. Thank you.

[The prepared statements of Representatives Lowey and DeLauro follow:]

STATEMENT OF HON. NITA M. LOWEY

Mr. Chairman, I'd like to request that my full written statement be included in the record. I want to thank you and the members of this subcommittee for providing my colleague from Connecticut and me the opportunity to appear before you to discuss the role that investments in our Nation's infrastructure can play in restoring growth to our economy. I want to compliment you for organizing this timely series of hearings and I look forward to working with you on measures that can get our economy moving again.

More than a year ago, Rosa DeLauro and I joined forces to press for a national strategy on environmental infrastructure that would enable the United States to regain its economic edge while protecting the environment and improving our quality of life. We focused our efforts on sewage treatment plants and other clean water infrastructure, because our Nation faces an estimated 130 billion dollars in unmet wastewater treatment needs. Without adequate Federal aid, this burden will wreck State and municipal budgets, cripple local economies, and rob our waterways of their environmental and economic vitality.

But in the midst of this dire need lies an unprecedented opportunity. The very investments that are needed to upgrade our environmental facilities can also expand the economic horizons of our communities. At a time when the national unemployment rate remains at 7.3 percent, investments in modernizing sewage treatment plants can create tens of thousands of jobs in the short-term and provide the capacity for years of economic expansion. These expenditures are possible, however, only with substantial Federal aid. The time to invest is now, and for the first time in years, we have an administration that understands what these investments can mean for our economy and our communities.

As you all know, President Clinton has announced his plans to offer an economic stimulus package that features increased investments in the Nation's infrastructure. We would like to take this opportunity to share with the committee our proposal for maximizing the economic and environmental impact of these investments. The measure, which we plan to introduce later today, utilizes existing mechanisms to provide rapid funding to states for projects that can begin putting our Nation back to work.

The best strategies for investing in our economy are not "lying all over Washington," but instead, line the shelves of State capitols and town halls all across the Nation. An economic stimulus package must focus on ready-to-go projects that are part of regional strategies designed to promote long-term, environmentally sustainable growth. The Clean Water Act's [CWA] planning requirements offer, perhaps, the best means for targeting Federal dollars toward productive, environmentally sound infrastructure projects.

To that end, our legislation would provide in fiscal year 1993 $3 billion in new funding to the Clean Water Act's [CWA] State Revolving Loan Fund [SRF] Program and an additional $300 million to the Rural Development Administration's [RDA] Water Pollution Control Grant Program.

These two programs are well suited to a stimulus package, because they offer proven mechanisms for delivering Federal assistance to communities seeking to expand their economies while protecting their natural resources. Under the Clean

Water Act, States all across the Nation have already identified existing needs and planned projects that only lack adequate funding in order to begin. The RDA's Water Pollution Control Program provides assistance to rural communities that cannot effectively use the SRF Program.

In order to illustrate how easily and quickly these funds could begin putting Americans back to work, we have brought with us a compilation of several hundred water pollution control projects from across the country that could begin within 90 to 180 days. This list represents only a fraction of the projects that are ready-to-go.

To ensure that our legislation quickly translates into new jobs, the bill establishes special requirements to mandate rapid obligation of SRF funds. For example, in order for States to receive additional funding for their revolving funds, they must already have made commitments to obligate a substantial portion of previously appropriated fiscal year SRF funds. We worked closely with the States of New York and Connecticut and a number of national groups to develop a workable mechanism for releasing these funds as quickly as possible. We believe States can meet these requirements and create thousands of new jobs in the process.

Our legislation would raise Federal funding for the SRF Program approximately $2 billion to $5 billion, a sizable increase but a necessary in light of the massive costs facing our communities. A study issued 2 weeks ago by the Water Pollution Control Administrator's [ASIWPCA] noted that the current level of funding for clean water projects is less than half the amount authorized by the original Clean Water Act of 1972. And yet our needs today are many times greater than they were two decades ago.

That study, which surveyed the water pollution control needs of all 50 States, called for annual funding levels of $5 billion over the next 4 years to help States meet these enormous costs. The study also found that funding the SRF at that level could generate 350,000 new jobs each year. Our legislation, which raises Federal support for the SRF to $5 billion, would enable us to meet that need this year and provide a powerful stimulus to our still-lagging economy. Mr. Chairman, I request that a three-page summary of the study be included in the record.

The bill we are presenting today is the short-term component of a long-range strategy for strengthening our environmental infrastructure, creating a foundation for sustainable economic growth, and protecting our natural resources. Later this year, we plan to re-introduce H.R. 5070, a 7-year reauthorization of clean water funding programs that would provide our communities the assistance they need over the long term to tackle our infrastructure needs and capitalize fully on the economic benefits of these investments.

H.R. 5070, which last year was cosponsored by 50 members of the House, has received unprecedented support from a coalition of labor, business, and environmental groups, working to increase Federal support for upgrading our Nation's wastewater infrastructure. These diverse groups agree that our long-term strategy for infrastructure investment must emphasize projects developed under the Clean Water Act's planning mechanisms, including the National Estuary Program, the Nonpoint Source Pollution Control Program and other efforts.

Mr. Chairman, there is a growing consensus in Congress and the Nation that investments in our infrastructure can increase American economic performance and improve our quality of life. We believe that properly targeted investments in environmental infrastructure can maximize those benefits, while at the same time preserving our natural resources.

I would like to conclude by thanking the chairman and the members of the subcommittee for this opportunity to outline our legislation. Working with the Clinton administration, the 103d Congress must develop a package of proposals that will spur our economy forward and lay a foundation for long-term prosperity. We look forward to working with you on this critical task and would be glad to answer any questions.

ASIWPCA

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January 22, 1993

The Honorable Max Baucus
Chairman
Senate Environment and Public Works Committee
458 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Baucus:

In response to your request for information relative to the short term needs of the State Revolving Loan Fund (SRF) for supplemental funds, the Association of State and Interstate Water Pollution Control Administrators (ASIWPCA) has surveyed the 50 States. ASIWPCA found that there are over $10 Billion ready to proceed projects currently on line that could benefit.

ADDITIONAL SRF FUNDS THAT COULD BE USED ($ MILLIONS)

	1993	1994	TOTAL
Traditional Needs: (wastewater plants, interceptors, collectors, combined sewer overflows, etc.)	$3,938	$3,741	$7,679
Other States*	345	483	828
TOTAL: 40 REPORTING STATES	**$4,283**	**$4,224**	**$8,507**
TOTAL ESTIMATED FOR 50 STATES AND TERRITORIES			**$10 Billion**

5.00

* Alaska, Arkansas, Iowa, Montana, and North Dakota can satisfy projects that are ready to go on the SRF priority list for traditionally eligible needs if SRF funding continues at FY 1993 levels. But, they could use the indicated funds if they were able to eliminate Title II requirements and provide principal subsidies for water supply or wastewater for small hardship communities or Native Tribes. Rhode Island reported in this category, as well as for traditional needs. NOTE: While the other States where not asked to provide such information, their ability to use funds for non-traditional eligibilities, if flexibility were allowed, would substantially increase the funding levels reported above.

Coupled with other ASIWPCA and USEPA information, the survey data indicates that the SRF should be appropriated at the $5 Billion level in FY 1994-97, as originally authorized by the 1972 Act. This does not account for inflation or increased mandates under the 1987 Act. It has been clearly documented that the SRF is the best mechanism for promoting construction of effective environmental infrastructure. It is unique in its ability to provide funding and jobs, with $5 Billion generating up to 350,000 jobs annually and over 2-5 times that investment over time.

Short-Term: The over $10 Billion in additional projects "ready to go" for 1993 and 1994 would enhance protection of America's waters. In providing supplemental funds, however, Congress needs to assure that funds are accompanied by the following reforms, so that States can expedite obligations:

1) Due to deficits, States are unable to match a supplemental.

2) Purchase of land/easements should be eligible. Restrictions on funding collectors and combined sewer overflows should be eliminated.

3) Limitations on refunding/refinancing and cash payments should be eliminated.

4) States should be able to extend repayment periods and blend principal subsidies with loans for small hardship communities. Smaller projects should be exempt from Federal requirements.

5) Grant projects, created by the Bush Administration at the SRF's expense, should not continue. "Special treatment for non-compliance" fuels a feeding frenzy among city lobbyists that is inequitable and threatens the very core of the SRF. The multitude of municipalities who accepted their responsibilities are being penalized.

6) States, whose projects "ready to go" can be satisfied by continuing existing funding levels, should be able to fund water supply projects and eliminate Title II and other Federal requirements.

Long-Run: Municipalities are the largest single source of water pollution. The nation's wastewater treatment needs documented by the States and USEPA exceed $130 Billion. Once the 1987 Act requirements are reflected in facility plans, they are likely to be over $200 Billion. The SRF, with its leveraging potential, offers the only viable national vehicle for meeting that need. It has been successful in the 50 States. While the Act envisioned a 6 year $8.4 Billion capitalization to be phased out in FY94, Congress continues the program because of its effectiveness. States can tailor SRFs to meet local needs, building projects cheaper and 50% faster. In contrast, with 55-75% Federal grants, cities face a plethora of nationally prescriptive requirements that increase costs, delay projects, discourage local initiative and often reward non-compliance. In providing long term funding, the following needs to be considered in addition to the above reforms as outlined in ASIWPCA testimony:

* Problems States are encountering in providing a 20% match,
* Simplification of Federal requirements,
* Broad flexibility to extend repayment periods, and
* Elimination of the 4% restriction on funds for State administration.

The Association appreciates this opportunity to respond to your request. Please contact me if you have any questions or further needs.

Sincerely,

Robbi Savage

Roberta (Robbi) Savage
Executive Director

cc: Jeff Peterson
ASIWPCA Membership
Michael Quigley

Attachment: State Funding and Project Data

A S I W P C A

Association of State and Interstate
Water Pollution Control Administrators
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(202) 898-0905 • Fax (202) 898-0929

ADDITIONAL SRF FUNDS THAT COULD BE USED FOR PROJECTS DOCUMENTED AND READY TO GO
[For Currently Eligible Needs (Wastewater Plants, Interceptors, Collector Systems, Combined Sewer Overflows, Stormwater or Nonpoint Source Control, etc.) -- *except where indicated by "*"*]
($ MILLIONS)

	1993	1994	TOTAL
ALABAMA	49	--	49
*ALASKA**	*63*	*63*	*126*
*ARKANSAS**	*25*	*175*	*200*
CALIFORNIA	371	385	756
COLORADO	19	200	219
CONNECTICUT	146	225	371
DELAWARE	90	42	132
FLORIDA	200	400	600
GEORGIA	95	40	135
IDAHO	19	21	40
ILLINOIS	214	--	214
*IOWA**	*20*	*20*	*40*
KANSAS	3	20	23
LOUISIANA	16	17	33
MAINE	100	200	300
MARYLAND	--	317	317
MICHIGAN	41	100	141
MINNESOTA	16	173	189
MISSISSIPPI	26	15	41
*MONTANA**	*20*	*28*	*48*
NEW HAMPSHIRE	57	120	177
NEW JERSEY	280	140	420
NEW MEXICO	20	12	32
NEW YORK	180	277	457
*NORTH DAKOTA**	*172*	*172*	*344*
OHIO	122	100	222
OKLAHOMA	37	29	66
PENNSYLVANIA	128	33	161
RHODE ISLAND	29 + *45**	18 + *25**	47 + *70**
SOUTH CAROLINA	156	116	272
SOUTH DAKOTA	25	12	37
TENNESSEE	50	50	100
TEXAS	320	--	320
UTAH	--	22	22
VERMONT	8	18	26
VIRGINIA	200	300	500
WASHINGTON	790	197	987
WEST VIRGINIA	49	30	79
WISCONSIN	82	112	194
TOTAL: 40 STATES REPORTING	$4,283	$4,224	$8,507

ESTIMATED TOTAL FOR 50 STATES AND THE TERRITORIES: *OVER $10 BILLION*

* These States do not have projects "ready to go" on SRF priority lists for traditionally eligible needs that could now use supplemental funds, but could use the funds indicated if they were able to eliminate Title II requirements and provide principal subsidies or zero interest loans for water supply or wastewater for small hardship communities or Native Tribes. NOTE: Rhode Island has projects in both categories. While the other States were not asked to provide such information, their ability to use funds in a like manner, if flexibility were allowed, could substantially increase the totals indicated above.

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House of Representatives
ROSA L. DeLAURO
3d District, Connecticut

COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEES
LABOR HEALTH AND
HUMAN SERVICES, EDUCATION
AGRICULTURE
SELECT COMMITTEE ON AGING

STATEMENT OF THE HONORABLE ROSA L. DeLAURO

Hearing of the Economic Development Subcommittee of the Public Works Committee

February 3, 1993

I would like to thank the new Chairman for convening this hearing. As a former member of the Subcommittee, I know of the interest the entire membership of this panel takes in addressing two pressing fundamental needs of our country -- jobs and infrastructure. Both Nita and I come here with a shared belief that nothing on the national agenda is more vital than taking immediate steps to deal with the economic challenges our nation faces daily. This morning we are excited about the prospects of addressing both these important problems with new legislation we have written that will create jobs while building our environmental infrastructure and cleaning our environment.

We are still in a time of deep recession in many parts of this country. In my state of Connecticut, unemployment -- now at 7.4% -- remains high. More than 200,000 people in Connecticut have lost their

jobs since the recession began in the Northeast over four years ago. In Connecticut, New York, and so many other states, the construction trades in particular are suffering from high unemployment rates -- reaching 50% in some cases. Any economic recovery plan which addresses job creation through the trades will be welcome news to the thousands now collecting unemployment in my state and across the nation.

These statistics point out an undeniable fact. We are failing not only to address important short-term economic problems that afflict our states and communities, but we have failed to invest in the basic infrastructure that any nation must have to be able to create and sustain long-term growth and the jobs and prosperity that come with it. Our economic and structural infrastructures are crumbling and unmet needs in both areas stretch into the hundreds of billions of dollars.

We cannot wait for the economy to turn around on its own. Overall, the country continues to loose jobs at an alarming rate. As the recession grinds on, businesses are cutting employees and thousands of layoffs are pending. Last week in Connecticut, -- in one day -- one company notified more than 6,500 people that they would loose their jobs. This picture will not improve until we act.

The reason Congresswoman Lowey and I are hear to today is that our work together has shown us that part of the solution to creating the thousands of new jobs we need can be found in the task of rebuilding our nation's environmental infrastructure.

Over the course of the last Congress, Nita and I worked together with a strong and interested coalition of business, labor and environmental groups to craft legislation that would permit our communities to meet pressing environmental infrastructure needs, leverage opportunities for growth, and create jobs. The bill, HR 5070, which we will be reintroducing later this month, revitalizes the Clean Water Act's State Revolving Fund and National Estuary Program.

The reason that labor, business and environmental groups have joined in support of our legislation is simple: good environmental infrastructure policy makes for good economic policy. Every $1 billion spent on environmental infrastructure creates up to 57,000 new jobs. And these are just the jobs created during the construction phase. These short-term jobs turn into long-term prosperity with the kind of sustainable growth made possible if we act to meet these basic infrastructure needs.

But what became quickly clear, is that as much as infrastructure was important to long term economic vitality, it could also be the stimulus for short-term job creation. The concept behind HR 5070 could be directly and quickly applied to creating jobs immediately. In order to be effective, any such legislation must incorporate existing, proven mechanisms for job creation.

Nita and I will be introducing such legislation later today, a copy of which -- with the chairman's permission -- I would like to include in the record of this hearing. This plan would use the SRF program and give it a one year infusion of funds designed to jump-start job creation while maintaining a needed focus on long-term environmental infrastructure needs. The legislation also provides additional funding to Farmers Home Administration programs used to fund Clean Water Act and Safe Drinking Water Act needs of small, disadvantaged communities.

Our legislation is also crafted to assure that funds provided are translated into real jobs this year. The legislation requires states to fund ready-to-go infrastructure projects that will have people working in a matter of months. The legislation also provides a means for all

communities, including disadvantaged ones, to benefit from the SRF program.

This legislation is designed to be folded into any larger effort put forward by this Committee and by the Administration to build an economic stimulus package. We must act to provide prompt and effective action to bring economic aid and immediate jobs for our hard-pressed working families. We should also assure that the jobs we create produce lasting benefits to our communities and our economy.

The challenge to this committee, to the Congress and to the President is to move boldly and quickly to alleviate the suffering that long-term unemployment and economic uncertainty has wrought on our nation. In Connecticut, there is no time left to squander on studies or extensive hearings. We know what the problem is -- the lack of jobs. We need to identify a solution that makes use of proven programs. And we need to move immediately.

Mr. Chairman I thank you for the opportunity to address this panel, and for the opportunity to enter a plea for quick action on behalf of my constituency. As a subcommittee, your responsibility to maintaining our

nation's infrastructure necessary for real economic development is clear -- and I believe our legislation will help you meet that responsibility. But as members of Congress -- as the political leaders of our nation -- each of us holds a responsibility to respond to appeals for help from those we've been entrusted to represent.

This committee has the opportunity to spur both the Congress and the President to quick action. President Clinton has voiced a strong interest in a quick investment in infrastructure. We have the opportunity to assure that not only are jobs created, but our infrastructure and environmental needs can be met in the process.

Moving quickly to accelerate the rebuilding of our nation's infrastructure holds the promise of building for our future while trimming back unemployment rolls. For a state like mine, now well into its fourth year of recession, this kind of help cannot come soon enough.

Thank you Mr. Chairman, for your kindness and consideration.

Mr. WISE. I would call the next witnesses, the gentleman from Massachusetts, Mr. Olver, and if I could put together a panel. Mr. DeFazio, if you don't mind participating in the next panel, we can get you on.

The gentleman from Oregon and a member of this full committee, Mr. DeFazio. Was there anyone else that wanted to testify at this time?

We appreciate the patience of both of you and we would turn to the gentleman from Massachusetts for his statement.

TESTIMONY OF HON. JOHN W. OLVER, A REPRESENTATIVE IN CONGRESS FROM MASSACHUSETTS, AND HON. PETER A. DeFAZIO, A REPRESENTATIVE IN CONGRESS FROM OREGON

Mr. OLVER. Thank you very much, Mr. Chairman, for holding this hearing and allowing me to testify among these appropriators. And I also want to congratulate the Chairman of the full committee for his inexhaustible energy and leadership at what is absolutely a critical time for this committee as a whole. I think the job that you have now is so very, very important.

Increased investment in our Nation's infrastructure is critical to the economy. In my district and across the country, thousands of Americans are out of work, particularly in the construction industry. These people want to work. They need to work and they should be put to work immediately on infrastructure projects.

A major increase of investment in the infrastructure would help our economy in the short-term by providing those desperately needed jobs but also in the long-term by supporting future economic growth.

As a cosponsor of last year's Anti-Recession Infrastructure Jobs Act, I believe that this legislation could provide a useful starting point for that, that legislation could provide a useful starting board for this year's efforts.

The recession has been particularly deep and long in certain regions of the country, and I personally very strongly believe we should target relief to those areas.

In addition, I think last year's bill was commendable in directing funds toward projects of local governments. No infrastructure package we could come up with is going to be large enough to meet all the needs that are perceived or identified around the country, so I particularly urge the committee to provide funds as directly as possible to the neediest communities, cities and towns, in those particularly hard-hit regions, and give them the flexibility to meet their most pressing needs.

For example, many cities and towns in my district have locally identified need or are being required by Federal Rules to upgrade their water and sewer facilities. So that providing funding for those projects would create the economic boost we are seeking while helping those communities reach environmental goals the Congress has required. I think Congress has got to do better on providing funds to meet such Federal mandates.

In other cases, it is the schools where the most pressing needs for repair work that are hindering the ability of the students to learn exist. In my district, the city of Holyoke, a city of 50,000 people, with a very poor tax base and roughly 80 percent of its school

children coming from minority and low-income families, that city has identified about $50 million alone in capital projects which could be under way within 90 days of funding approval.

For other municipalities, the most pressing need may be to build public safety facilities, police and fire stations, or build new community or social service centers that could provide for their elders or their child care or for social services across the whole board.

For these funds to be of the greatest help, towns and cities should have the flexibility to meet local needs as they are believed to be most pressing along the way, with appropriate guidelines.

By investing in the infrastructure projects today, we will give an immediate lift to the economy by putting people back to work, but, more importantly, these projects are essential to the future economic growth.

Disinvestment of the last 12 years has hurt the economy, but it has also made the task now of getting back to a proper level of investment and infrastructure all the harder and at the same time all the more critical.

In conclusion, I believe that investment in infrastructure projects supports both short and long-term economic goals. I would urge the committee to provide funds as directly as possible to local governments, with as much flexibility in the type of capital project that can be undertaken, so that they can choose to meet the most critical need identified in that community.

I thank you very much for allowing me to testify and, as with the previous panel, I would urge you to act quickly.

Mr. WISE. I thank the gentleman.

And while Mr. DeFazio is testifying, I wonder if you would think —I agree with everything you say, but the question I would like to ask is, procedurally, how would you see the best way to get the money to those communities as quickly as possible; whether it is by simply allocating more funds to different agencies and requiring them to promulgate their own regs and have their own distribution system to expedite distribution, or whether some of that funding, as has been this case in former Public Works' jobs bills, for instance, in 1976–1977, whether some of that funding at least ought to go through a particular agency, like EDA, that oversees the overall process?

I would appreciate your thoughts on that, if you would, after Mr. DeFazio testifies.

Mr. DEFAZIO. Do you wish me to proceed, Mr. Chairman?

Mr. WISE. Yes, sir.

Mr. DEFAZIO. Thank you, Mr. Chairman.

I have provided prepared remarks which I would like to have entered in the record, if there is no objection, and I will summarize.

I think the most cogent points for us as members of the Public Works Committee is to compare and contrast the benefits of the investments and the expenditures that we would make with other expenditures, perhaps not investments, of the Federal Government.

We can put it into perspective by looking over across the river to DOD, and we note that even with the collapse of the Soviet Union and the end of the Cold War, there is still $1 trillion in the pipeline for new weapon systems. That is more than we have pro-

grammed to spend on the entire Federal investment in Public Works in this Nation in the next 30 years.

So we are programmed to build obsolete weapons to oppose an enemy that doesn't exist for a trillion dollars while we starve our infrastructure and drop further and further behind in international competitiveness because of starving that infrastructure. And, in fact, the struggle for world leadership in the next century isn't going to be military, it will be economic, and we have to make the investment to exert that leadership.

We all know the statistics. Bad roads, traffic congestion causes two billion hours of delay every year; airport delays, about $1.5 billion in additional costs to airlines and consumers.

You know, the airlines, I think, would dearly like to recapture some of those funds, and certainly put them on a little more stable footing. Beyond that, the EPA estimates that we have got $80 billion of municipal sewage treatment needs coming over the next 20 years, and it looks like, at current levels, we will spend less than half of that meeting those needs.

So, in fact, in many cases, our capital infrastructure is deteriorating more quickly than we are replacing it. We are falling further and further behind. A shift, according to CRS, of $3 billion from the military budget to infrastructure would produce twice as many jobs as if that money were expended on the military. If we were to fully fund the ISTEA, the IAP and other transit stimulus projects, as suggested by the full committee Chairman, Mr. Mineta, we could potentially create an additional one million jobs in this country, certainly helping the Administration to deliver and fulfill their promises of a reinvigorated economy and more opportunities for Americans everywhere.

Rural infrastructure, I know, Mr. Chairman, is a particular focus of yours, and representing a mixed urban rural district, I share your concerns. We have to look at the rural infrastructure, and in my testimony I have documented—and won't go into the specifics—but a number of communities in my district—and it is not a comprehensive list—that are being held back from diversifying and boosting their economies because of shortage of clean water municipal sewage treatment capability, and they could move ahead very quickly with programs to improve that.

Not only would we put the people to work doing the rural infrastructure improvement, but we would put people to work long-term in newly reinvigorated local economies who could attract new businesses.

One other area I would like to introduce before the committee, and it may be, in part, beyond our jurisdiction, but think about nontraditional infrastructure; that is natural infrastructure. We certainly have some jurisdiction in the case of the Corps of Engineers and our jurisdiction over wetlands, and that to begin to look at restoration of natural infrastructure as an investment in the future and as a way of creating jobs.

I am drafting legislation that would deal with the watershed enhancement restoration of the Pacific Northwest. It is part of the resolution of our old growth forest controversy but could be a model around the rest of the country for investment in natural infrastructure.

How do we pay for all this? Well, first off, I posit these are investments we cannot afford not to make so we better look hard and long at finding ways of convincing our colleagues to fund them no matter what the implications are for the theoretical bottom line deficit.

I note we can somehow find $100 billion to bail out the savings and loan off budget. I would suggest that we could similarly find ways to fund public infrastructure off budget.

We have accumulated the balances in the trust funds. Let the Budget Committee play their games; that is, they like to see a surplus of income over expenditures every year. Let them play that game in this current year. Fine. You just served on the committee; you know well. But then, when we have an accumulated unappropriated balance in those trust funds, let us make a minor change in the budget rules, and say since these are trust funds, the money has been collected by the government and is just sitting there, so let's expend those funds without it counting towards the theoretical deficit on off-budget expenditure, just as the accumulated balances in the trust funds. It would give benefits that would far exceed any potential minuscule imaginary increase in interest rates or anything else that that expenditure might cause.

If we cannot convince our colleagues, either our colleague downtown or colleagues in the Congress, that that is a way to go, then let us take a hard look at capital budgeting. Does it make sense that we count an operating expense, diesel fuel, to run an aircraft carrier exactly the same way as we count a dollar or dollars spent on a 30- to 40-year investment in the national infrastructure? It makes no sense to me or to businesses. They don't budget that way. It is time for us to look at capital budgeting.

And then, finally, one other new idea would be the social security trust funds. It is a little known fact Social Security gets a submarket rate of interest for investing its funds in Treasury bonds, which is the only investment currently authorized and allowed. That is, because they buy so many Treasury bonds, they get a lower rate of interest; unlike what normally goes on in the free market. If you are a preferred market, we may give you a higher rate of interest. We give Social Security a lower rate of interest and we nick them a few points.

And I would posit we could create a structure where some of the Social Security surplus would be invested in infrastructure bonds which would be issued to local communities who would pay back those bonds at a comparable rate of interest for the current investments, and I think it would also stabilize the future of Social Security. It would allow less tampering with the trust fund's balance and put people to work, furthering the benefits to the Social Security trust fund by having the additional income.

I thank the Chairman for his interest and attention to this matter and look forward to him leading us in new directions as we push for economic development and diversification.

Mr. WISE. I almost feel like I ought to do some act of contrition for having served on the Budget Committee.

Mr. DEFAZIO. I am sure you were a dissident voice and did the sensible thing.

Mr. WISE. The thing I have to report, Peter, is I am still there. I have one more term. But I will try to do right.

Mr. DEFAZIO. Oh, you just came back here and left.

Mr. WISE. To my natural——

Mr. DEFAZIO. Good. Then, we have a voice on the Budget Committee for these reasonable solutions.

Mr. WISE. That is what I was hoping.

[The prepared statements of Representatives Olver and DeFazio follow:]

JOHN W OLVER
1ST DISTRICT MASSACHUSETTS

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Thank you Mr. Chairman for holding this hearing, and for giving me the opportunity to testify here today. I know there are many members here to testify, so I will keep my remarks to the point.

Increased investment in our nation's infrastructure will help our economy. In my district, and across the country, thousands of Americans are out of work, particularly in the construction industry, who could be put to work immediately by improving our infrastructure. A major increase of investment in our infrastructure will help our economy in the short term -- by providing desperately needed jobs -- but also in the long term, by supporting future economic growth.

As a co-sponsor of the Anti-Recession Infrastructure Jobs Act in the last Congress, I believe that that legislation could provide an useful starting point for this year's efforts. This recession has been particularly painful in certain regions of the country, and I strongly believe we should target relief to those areas. In addition, I think last year's bill was commendable in directing funds towards projects of local governments. I would urge the committee to provide funds directly to towns, and give them flexibility to meet their most pressing needs.

For example, a great many cities and towns in my district are being required by federal rules to upgrade their water and sewer facilities. Providing funding for those projects would create the immediate economic boost we are seeking, while at the same helping those communities reach environmental goals which the Congress has mandated. Similarly, many school districts have pressing needs for repair work which are hindering the ability of our students to learn. The City of Holyoke public schools has nearly $50 million in capital projects which could be underway within ninety days of funding approval. Other towns may find that they need to repair police stations or fire houses, or build new social service centers, for seniors or for child care. The towns should have the flexibility to meet local needs, within appropriate guidelines.

By investing in infrastructure projects today we will give an immediate lift to the economy by putting construction workers back to work on projects that will need some investment. Also by making the investment today we save money by making the investments today support both short term and long term economic goals, and I would urge the committee to provide funds directly to local governments with as much flexibility as possible in the type of capital project to be undertaken.

Statement of the Honorable Peter DeFazio
February 3, 1993

One of the most overworked cliches of the Reagan years was that 'government should run more like a business.' Well, any business that neglected its assets, equipment and personnel the way this country did in the 1980s wouldn't be around to see the 1990s."

During the 1980s, we spent more on non-productive items and relatively little on productive investments. From day one, the Pentagon budget was in the driver's seat. During this time, the Military budget grew 36 percent faster than the rate of inflation. Adjusted for inflation, the Pentagon last year spent $80 billion more a year than it did in 1980. Even as the former Soviet Union struggles to regain its feet, this country will still have one trillion dollars of new weapons "in the pipeline."

This spending creates jobs in defense plants (That's why it's the most popular pork on Capitol Hill), but contributes zero to real economic growth. A taxpayer dollar spent on a B-2 Bomber never creates another dollar; it just sits there, waiting for Armageddon.

At the same time, spending on our nation's **infrastructure** dropped by 32 percent. As a result, our highways and bridges are crumbling, with devastating effect on our economy. **Bad roads and traffic congestion cost motorists close to 2 billion hours of delay every year.** Our airports are clogged with congestion. **Airport delays create $1.5 billion in additional costs to airlines and consumers.** Our rural municipal water and sewer systems are far from adequate. The Environmental Protection Agency estimates that municipal sewage treatment needs will cost more than $80 billion over the next 20 years. *Yet the federal government spends only $2 billion per year on improvements, less than half the rate of spending in the late 1970s.*

Infrastructure investment is good for America. Federal spending on roads, bridges, highways, rail systems and airports produces far more jobs than any other type of spending. According to a recent CRS report, shifting $3 billion from the military budget to infrastructure needs produces nearly two private sector jobs for every one defense related position. Multiply that by 10 and you have a substantial economic boost. And compared to defense related expenditures, infrastructure spending is far more labor intensive and far more beneficial to our economic competitiveness and efficiency. Infrastructure spending also produces a multiplier-effect on the economy, creating additional jobs through efficiency, increased demand and consumption. Were Congress to fully fund ISTEA, the Airport Improvement Program and other transit stimulus projects as Chairman Mineta suggests, we could potentially create an additional 1 million jobs in the near future.

However, the real challenge facing America is to sustain this type of investment over the long term. While short term spending is fine, any real hope for a stable recovery rests with the prospect of funding a long term program of capital improvements.

By far, the greatest prospects for improvements are found in municipal sewer and water needs. In rural, timber-dependent areas like Southwest Oregon, the lack of adequate sewers and plentiful sources of clean water has been like a wet blanket on the region's economy. Without this infrastructure in place, communities cannot attract businesses to grow out of their current economic slump, further compounding the effect of reduced harvests on federal forest lands.

It's a tragic situation for these communities. Several towns in my district are on the verge of rebounding from tough economic times, but prosperity remains elusive. The lack of adequate water and sewer systems has scared away all but the most adventurous business opportunities. For example:

Powers, Oregon. This timber-dependent community with promising recreational opportunities has not been able to comply with its sewer discharge permit for several years. The cost of upgrading its sewer treatment plant is $1.75 million - a price too expensive for the town's displaced timber economy. The town must install a filtration system by July or face federal Clean Water Act violations. It's too small to qualify for the State Revolving Loan Fund (SRLF). Unless Powers makes this improvement, the town will likely pay stiff fines and face the continued prospect of economic decline.

Albany, Oregon. This medium-sized city of 34,000 people relies on an 18 mile long, open canal for its sole water source. The canal was built during the Civil War and is constantly threatened with siltation, bank erosion and non-point pollution from agricultural runoff. What's worse, there are no alternative water sources in the event of catastrophe, contamination or severe drought. While the canal has served the city well for 130 years, its clearly time for replacement. But construction of a new treatment plant and delivery system would run into the *tens of millions*. With the city's economy already strained from spending on sewer expansions, it's unlikely the residents could afford such an improvement until well into the future.

Springfield, Oregon. Since the early 1980s, East Springfield has been facing a major development moratorium due to severe surcharging and near overflow conditions in the city's sewer system. The cost of constructing a major new interceptor for the promising industrial properties and fast growing residential areas is $18 million. While the community financed a small portion of the start-up costs, it cannot pay for the rest of the project. Unfortunately, the improvement is not considered a high enough priority to qualify for the SRLF. Yet the economic future of Springfield depends on its ability to secure additional funding for the interceptor.

<u>This is investment we can't afford NOT to make</u>. The federal government must renew its commitment to clean water and municipal sewer systems. No matter how great the pain, we must find revenue to pay for these improvements - whether its through full funding of matching grants or expansion of the State Revolving Loan Fund.

Another promising strategy can be found in renewing our national infrastructure. I'm proposing a new commitment to improving our natural resources that would create thousands of jobs restoring fish habitat, improving forest road systems and catching up on reforestation and other management backlogs in the Pacific Northwest forests.

In many watersheds, high quality salmon and trout habitat is threatened by poorly located

or maintained roads that could fail in the event of a severe storm. Improving, relocating or, in some cases, removing problem roads can provide the most "bang for the buck," as well as providing immediate employment for already skilled woods workers. One Northwest conservation group estimates that as many as 10,000 jobs could be generated through this strategy.

There is a great deal of interest in funding programs to restore the region's watersheds, both within the land management agencies and the Northwest's congressional delegation. It's my intention to work with the Clinton Administration to include such a program in any comprehensive legislative resolution of the Pacific Northwest's forest management crisis.

Of course, no strategy will work in today's budget climate without serious corresponding proposals to pay for these investments. I suggest that Congress look no further than the federal government's existing budget structure to pay for this spending.

The most expedient way to finance investments would be to declare the spending "off budget." For the last few years, Congress has been asked to ignore the impact on the deficit while spending over $100 billion to bail out the nation's failing savings and loan industry. Even though this spending does relatively little to enhance our economic competitiveness and efficiency, it's considered an "emergency" investment. Well, I consider the state of our nation's crumbling infrastructure an "emergency" situation and propose that we declare a modest investment program "off budget" and spend down the accumulated, unobligated revenue in the Airport and Highway Trust Funds.

If that won't do the trick, I would at least urge my colleagues to adopt a more realistic budget that separates operating expenses from capital investments. It doesn't make sense to lump non-productive spending together with spending that multiplies economic growth. If we

separated infrastructure spending from the unified budget, we could amortize investments over a 30 or 40 year period and limit reductions in any one given year to 1/30th or 1/40th of the capital budget - not reduce spending by huge chunks as we do now.

And finally, we could seriously consider utilizing America's biggest source of investment capital: surplus revenue from the Social Security Trust Funds. Right now, the trust funds are generating a huge surplus. Estimates show that the surplus will grow to nearly $12 trillion by the year 2020. If the Treasury offered a portion of that surplus revenue to state and local governments as infrastructure bonds, the benefits would be enormous. Not only would the cost of borrowing be cheaper, but the availability of the bonds would drive down other interest rates and make the borrowing more affordable. To protect the rate of return on trust fund investments, we could set a floor for the special interest rates. This type of investment would also provide a measure of investment diversity to the trust funds and make them less susceptible to federal actions or limitations.

Mr. WISE. I recognize Mr. Gejdenson, and I would like to report that the gentlewoman from Connecticut has already testified and the committee is pretty much agreed her district really is the one that ought to derive the short-term economic stimulus program, but we would be delighted to have any remarks you might wish to make.

Mr. GEJDENSON. I hope the Committee can accommodate my district as well if there are a few crumbs left. My colleague from the third, who I believe you are referring to, is one of the better members of the delegation, without any question.

I would, first, ask that a statement by a colleague from a small but very friendly State to the east of us, Rhode Island, Mr. Reed's statement be placed in the record.

Mr. WISE. Without objection.

[The statement of Mr. Reed follows:]

STATEMENT OF HON. JACK REED

Mr. Chairman, I appreciate the opportunity to submit testimony at today's hearing, and I want to thank Mr. Gejdenson for his kind words.

Like the other members of the New England congressional delegation who have testified today, I can attest to our region's economic troubles and the need for a Federal jobs program. Recognizing that we need to get people back to work is the easy part, developing a program to accomplish this goal will not be so simple. Nevertheless, passage of such a program is my number one priority and I believe the members of this subcommittee share this goal. Therefore, I think it's important to ask, what should a jobs bill look like?

As Chairman Mineta has stated, we need a jobs bill that funds projects that are ready-to-go and will put people to work now. One way would be to provide funding for the hundreds of clean water and sewer projects that have been stymied by the lack of Federal funding. Full funding of ISTEA is another method, and so is funding for the northeast corridor improvement project.

In addition, I think it is important to ensure that funding reaches towns and cities rapidly without having to wait months and months for Federal approval. Perhaps, only one agency should be responsible for dispersing any jobs bill funds. Or, States could receive funds in block grant form. Most importantly, we must ensure that job creation funds go to communities with the greatest need. Perhaps this could be accomplished by tying funds to unemployment rates, particularly unemployment among construction workers.

In Rhode Island, we have a tremendous pool of talent that is currently employed in defense manufacturing. Unfortunately, these individuals are casualties of our cold war victory. Helping these workers and their employers get involved in rebuilding our infrastructure should be another aim of any jobs bill.

Obviously, there are many other issues to address, but I think these are a few items we should consider as we work to rebuild our infrastructure and our economy.

Mr. Chairman, thank you for calling this hearing and for the opportunity to submit this statement for the record.

TESTIMONY OF HON. SAM GEJDENSON, A REPRESENTATIVE IN CONGRESS FROM CONNECTICUT

Mr. GEJDENSON. Thank you. I won't belabor the committee for a long time, except first to say that I am pleased with what I hear from Mr. Reich and others in the Administration about to engage in resuscitating our economy.

Over recent years, the attitude about government intervening in the economy was, to only intervene when there is serious damage. If you went to your doctor and told him you had pain somewhere around your heart and you thought it might be angina. The Federal response was, well, go away and tell me when you have had a heart attack. Once you have had some serious organ damage, we will come back and look at your area.

We need to stop intervening only when unemployment statistics and welfare statistics and devastation reach unthinkable levels and we have bombed-out crisis zones. We need to intervene much earlier. The economies in the world that have made it, are those where the governments have invested in their infrastructure. It has made their countries competitive.

Clogged bridges, inadequate educational facilities and harbors make us less competitive internationally. I am for training and I am for education, but if at the end of the day you don't have a place to go get a job, all that training and education isn't worth much. So what we need to do is give these people who we've trained jobs. The jobs are there. We have bridges that need to be fixed, roads resurfaced and schools rebuilt.

In Connecticut, the jobs that are already designed and ready to move total a $190 million in cost and would produce, just in the highway department area, close to 10,000 jobs.

We have a choice in the Federal Government. We can either continue to pay unemployment and welfare costs and watch people lose their homes and watch banks fail, or we can invest. We have seven bridges, we have major work on I–95—the central thoroughfare going up and down the East Coast—truck inspection stations, resurfacing and airport renovation. All of these things make us more competitive as a Nation.

Our Public Works Department, with State colleges and prisons and mental health facilities, are desperate for funds. We are a State that has reached into the pockets of our constituents. We are a State that has raised taxes. We have tried to cut spending. We are a State that contributes generously to the Federal Government, in that a big chunk of tax dollars come out of Connecticut and go to the rest of the Nation. But we are also a State that is in trouble today. We are a State ravaged by a defense industry that is downsizing rapidly to deal with the new realities of the world. Our insurance industry is in trouble. Our banking industry and real estate industry is still in very serious straits.

I can take one of my towns, where an earlier decision to build a highway along the riverfront has severed the community from possibly its largest economic asset. The State, I think, would be willing to participate with Federal funding to bring the public's access back to the riverfront of the Connecticut River in Middletown. The city has a population of 43,000 people, and is an area where we could see significant commerce occur. A walkway over the highway could really make a major difference to that community and to the State of Connecticut.

The port of New London is a perfect example, again, where infrastructure development is needed. It used to be the place where we had a ship tender to fix submarines. For a long time the Navy operated that port and said, we don't want any private commercial development in here because we have security concerns.

The world changed. The Navy left and left us empty. Now, thankfully, Congress moved quickly in the last session to transfer the pier to the State. If we had the resources to fix that port up, it would make us more competitive as an exporting Nation and it would help us, clearly, in Connecticut.

Whether it is dorm ruins in UCONN or other facilities, we need help from this committee, and we will be speaking to you about the specifics that we are looking for.

I don't want to take up everybody's time today. It is critical to us, it is critical to the economy. We spend $30 billion a year stimulating Europe's economy with what we spend on bases, not counting the salaries of our personnel and their families over in Europe. It is time we focused on the American economy and stimulating it back to life.

And I know the leadership of this committee will play a major role in that, and I thank you for giving me so much time to present our case. Thank you very much.

Mr. WISE. I want to thank the gentleman.

[Mr. Gejdenson's prepared statement follows:]

STATEMENT

BY

THE HONORABLE SAM GEJDENSON

BEFORE

THE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

FEBRUARY 3, 1993

Chairman Wise and members of the Committee, thank you for allowing me to testify today on the important subject of how Congress can spark economic development through investment in our nation's infrastructure.

I wish to take a few minutes of your time today to discuss how developing Connecticut's infrastructure can create jobs and stimulate the State's suffering economy.

Connecticut has been hard hit by the recession. It was hit early and still shows few signs of recovery. The recent downsizing of the insurance and airline industries, as well as cutbacks in our nation's defense spending, kept the State's unemployment rate well above the national average for most of 1992. The outlook for the future is equally grim. United Technologies Corporation (UTC) announced last week that it will be laying off 6,700 workers in Connecticut by the end of 1994.

Additionally, the Electric Boat Division of General Dynamics anticipates that 1,500 more workers will be laid off by the end of the year in the eastern part of the State.

Connecticut's crumbling infrastructure is also of great concern. Many of our highways, bridges, and public institutions are in desperate need of restoration. Through its Ten-Year Transportation Infrastructure Program, which began in 1985, Connecticut has begun work on its state and interstate highway systems. With the help of federal funding that is matched with state and local dollars, some progress has been made through this program. Nevertheless, much work remains to be done.

The Department of Transportation (DOT) in Connecticut has a listing of highway projects totaling $190 million which can go to construction as early as September of this year if federal funding is available. These projects include the repair of seven bridges, Interstate 95 improvements, construction of a truck inspection and weigh station, traffic signal installations, and highway resurfacing -- all of which would upgrade travel through a vital part of the Washington-Boston corridor. Additionally, five airports in the State require over $12 million worth of renovations. These projects alone, the State's DOT estimates, could create more than 9,500 jobs in the region.

Another important project for which DOT needs federal funding is the development of a State Pier in New London, Connecticut. This project is part of a three-tier port authority program to stimulate trade and tourism in an area that has been hurt by the recent downsizing of the Electric Boat Shipyard in

nearby Groton, Connecticut. This project has widespread support and has generated much interest in a state with a high volume of capital exports.

The city of Middletown, Connecticut is also in need of DOT funding to develop a highway overpass that would connect its downtown area with the Connecticut River waterfront. The building of this overpass would not only bring a thriving tourism industry to the area, but would also create a transportation center linking bus, boat and possibly train travel.

More than 70 Connecticut Department of Public Works projects totalling $168 million are currently ready for construction. The bulk of these projects include the repair of our state colleges and universities to alleviate the overcrowding and poor living conditions on our public campuses. These repairs are long overdue. In my district, for example, the University of Connecticut has not built a dormitory for twenty-two years despite extended periods of high enrollment. To make matters worse, the State has been unable to make any major renovations to dorms built in the early 1950's.

Investing in badly needed infrastructure projects is the answer to Connecticut's economic problems. Many people who have lost their jobs, or are about to, can easily be put back to work rebuilding the State's roads and public institutions. Only when these important foundations are repaired and expanded can we hope to maintain long-term economic growth.

As the Subcommittee formulates legislation to stimulate our economy through infrastructure development, I urge you to put

together a package which will help Connecticut rebuild its highways and public institutions, and create jobs for its residents. We have a unique opportunity in this Congress to work with the new Administration to put our highly skilled workforce back on the job, and at the same time, make our infrastructure safe, reliable and ready for the 21st century. I look forward to working with the Subcommittee as it capitalizes on this opportunity.

Again, thank you for allowing me to testify.

Mr. WISE. I just asked Mr. Olver, I had asked you a question, and I appreciate your patience, and if you had any response to that.

Mr. OLVER. Thank you, Mr. Chairman. I did have time enough to think a bit about it, and if I had more time I could probably construct a whole list of agencies to which you could give money in categorical groups that might do great projects.

I prefer not to do it that way, particularly because, in the environmental area, I have communities who are under mandate, essentially, to put in a water filtration plant. But even in the environmental infrastructure area, it is not the most critical things for those communities when they look at what their needs are.

So I personally would prefer that you provided broader guidelines in these allocations in order to allow the greater flexibility to do the things that are most necessary. My belief is that the more you slice it up in different agencies, the less likely you are to be able to meet the concept of a 90-day window opening in order to get construction jobs into operation during this season.

Though, again, I think if you are doing this, you should be looking toward the 1993 and the 1994 construction seasons in their totality as the period in which the overall economic stimulus ought to run.

I think how you allocate, every State should get some, but I do believe it ought to be disproportionately focused towards those which have had the deepest and longest recessions, the longest period of unemployment in the last—of high unemployment—in the last period of time. And, really, because of what I said, that the total amount that you can possibly provide for this kind of purpose, which has generally been written to be in the $15 billion to $30 billion range, is so small compared with the total infrastructure need that is identified out there, that the guidelines can be relatively broad, can go from the State and then to the communities, maybe with some flexibility so that if communities are unable to get the projects out that quickly, are not ready to do it, the State can reassign them some place, to some other location.

But I think breadth to meet the most pressing needs will get the stimulus out there most quickly and all of it, because the total we can provide is relatively small compared with the total need will all provide us with long-term needs, will provide us with projects which are important in the long run.

Mr. WISE. I would like to make an editorial comment, which is, I agree with you. My concern is on the short-term economic stimulus package, separated from what I assume will be a longer term economic growth package, on a short-term package, if the goal is to get jobs up, get jobs in America signs up over projects that are moving—and we are speaking of the infrastructure piece only; not investment tax credits or others—it seems to me the amount we are speaking of is relatively small in light of the total need.

What I see in the newspaper today is a $25 billion to $30 billion total package, and I am assuming the infrastructure piece is somewhere between 4 and 10 in there, and that if you—I made a rough list. If you allocate that amount to each, to the many agencies that could have a piece of it, Farmers Home, RDA, EPA, HUD, DOT,

ARC, EDA—there are more, I know, that I have left out—then the money will be all gone before they get their regs promulgated.

The history in the past has been to allocate—in the second goal I heard from the Governors yesterday and the mayors in the previous hearing was to have maximum flexibility, and so it would seem—so that they could apply for what they wanted to apply for. It would seem to me, then, an agency such as the EDA, which has been the conduit in the past for Public Works, for jobs bills, that that might be a better approach for the small, relatively small piece that will be assigned to infrastructure into getting that money out.

That is an editorial comment.

At this point, let me make this as flexible as possible. Members will have to come and go. We probably have a vote on the journal as well.

What I want to do, if there is no objection from the members of the committee, is to proceed ahead with the Members, and for those who have to take off, that is fine.

I would now recognize the gentleman from Massachusetts, Mr. Frank, and then Mr. Nussle, and I thank those of you that have come already.

TESTIMONY OF HON. BARNEY FRANK, A REPRESENTATIVE IN CONGRESS FROM MASSACHUSETTS, AND HON. JIM NUSSLE, A REPRESENTATIVE IN CONGRESS FROM IOWA

Mr. FRANK. I appreciate, Mr. Chairman, your convening this.

I want to focus my remarks on the long-term part of it and, in particular, I want to talk about an area where I think we will get bipartisan agreement, and that is restoring Federal funding for municipalities that are under orders or are proceeding to comply with the Federal Clean Water Act.

This is where a number of principles, I think, come forward: One is the principle that has gotten more support on the Republican side sometimes than the Democratic side but, we should all pay attention to it; namely, we at the Federal level should not be mandating very expensive costs on our lower levels of government without at least substantial funding.

The Clean Water Act is now one of the most glaring examples of Federal mandate that is totally unfunded. It is especially relevant to provide funding here because clean water is hardly a local issue. We are not talking about cleaning up puddles; we are talking about rivers and oceans and bays. Water that is international. And the area I am most interested in, and my colleague, Mr. Blute, and I share one city, the city of Fall River, and cleaning up the water of the city, as he knows, has a lot of impact on the State of Rhode Island because the waters are intermingled.

I can say, in addition to that argument, that we should not, at the Federal level, be imposing things. In some communities the history of this legislation is that it originally included substantial Federal funding. Then, in the crunch of the 1980s, that was taken away. So we also have some differential effects. Some municipalities got a lot of Federal money; others, because they came later, didn't get it. I think the time has come to restore it.

There is also the environmental argument, and I was pleased meeting with an environmental coalition to see this was high on their list. People should understand the Clean Water Act is not in the Bible and not in the Constitution. It is a statute. It is something which, having been put forward by Congress, can be changed by Congress.

I don't want to see it changed. I think the goals of the Clean Water Act are important for the environment. But if you tell people in many, many of the municipalities of this country they are going to have to fund the entire impact alone, you will create a constituency for cutting back on the goals of the Clean Water Act, and that would be a mistake.

And one way to avoid that is for the Federal Government to pick up a substantial part of the share. Not all of it, because the municipalities carrying this out need to have an incentive to do it in the most efficient way and, therefore, it should be a cost-sharing thing.

Finally, we have the economic impact, which is so important for what you say in the long-term situation. I can speak for the city of Fall River, as Mr. Blute can; I can speak about the city of New Bedford and about other Massachusetts municipalities and elsewhere.

At a New England Caucus, Senator Lieberman said this is important. Even in Vermont this was an important issue. The Governor of Vermont said they were interested in clean water. It struck me this may bring flush toilets to all of Vermont if we were able to fund this.

But the issue we have is that in cities like New Bedford or Fall River, older urban areas, the cost of full local share of compliance with the Clean Water Act is so great that jobs will disappear.

There is no combination of incentives. Enterprise zones, investment tax credits, job training. No combination of incentives conceivable that could offset the economic harm these municipalities will suffer if the water bills go up. That is important, obviously, for businesses that use a lot of water.

I have been through a few fishing plants, textile plants. Their water bills will triple and, of course, we will, then, get a declining cycle because these are user fees in many cases. As those that are able to move, move out, the cost doesn't go down of the plant, and those remaining will have to pay an even larger share.

A failure on our part to restore substantial Federal funding to the Clean Water Act will result in the economic devastation of many areas already most vulnerable, and many of those areas have already taken a hit because of economic trading patterns and by national policies which have adversely impacted them and they will be further adversely affected.

So I hope when the committee redoes the Clean Water Act that it will be putting some money in—and this is the long-term piece. As a member of the Budget Committee, it is my intention to work hard to see that there should be a budget allocation, obviously, to be triggered by your committee's action and later the Appropriations Committee. And while there are other important issues, it seems to me the Clean Water Act, as a Federal act, is one where we should be giving it a very high priority.

I intend to mention this to the Administration and I am pleased to be able to come forward here. And I am reminded of how interstate this is, because when I grew up in New Jersey, I could go about two miles from my house and look across a waterway at the home of Ms. Molinari in Staten Island. So I am reminded of that and, to the Ranking Member of the Kill van Kull, of how international and national and nonlocal this is.

Mr. WISE. I thank the gentleman and turn to Mr. Nussle, the gentleman from Iowa for his statement.

Mr. NUSSLE. Thank you, Mr. Chairman. I want to thank you for affording me this opportunity to discuss investment in our Nation's infrastructure, and I commend you for engaging in this kind of a discussion early on in the process.

While my definition of infrastructure extends beyond the jurisdiction of this committee, I will try to keep my comments and suggestions just to the jurisdiction of this subcommittee.

Judging from the comments of the Administration and other congressional leaders, the question before us does not seem to be whether or not we are going to have a short-term economic stimulus package and whether it will move through Congress, but finally what that short-term stimulus package will look like. As such, I would like to just outline some thoughts very briefly about it.

I know in Iowa, for example, the development of the Avenue of the Saints and the development of Highway 63 corridors are sufficiently under way and could benefit greatly, both in terms of the short term and long term, from funding and additional funding. And while the Avenue of the Saints and Highway 63 corridors and other projects of national significance will benefit from this funding at this time, I have two concerns I hope the subcommittee will heed during its deliberation over the short-term economic stimulus package.

First, I urge the subcommittee members to distribute these funds in an equitable manner. I recommend using the formulas established by the ISTEA legislation. This will allow the State departments of transportation, who best understand the transportation needs of their State, to put the additional funds to work right away, and I would further recommend any discussion of fairness of those formulas be postponed until another more appropriate time.

I know that donor States have worked diligently to make some of the changes in the highway formulas during the consideration of ISTEA, but I also believe that the battle has not yet been won, and I believe a truce of this war needs to be made until a more appropriate time so that we can move this legislation forward.

Second, I also urge members of the subcommittee and the full committee to avoid adding new projects to this legislation. While our infrastructure needs are great, the intent of a short-term stimulus package is to create jobs and economic activity immediately, and that, I don't believe, can be accomplished through new projects, in my judgment.

I make the second point in part as a reaction to an article that appeared in the City & State magazine revealing that the National Mayors Conference compiled a list of ready-to-go, so-called, infrastructure projects that include projects months away from being ready. Moreover, this article further reported that some of the

projects identified by the Mayors Conference are not of any national significance.

For example, we picked out one in Fort Wayne, Indiana, which identified $27.1 million for park improvements, including repairs to a children's petting zoo. While recreational facilities are certainly a part of a community's infrastructure, I don't believe that such projects should compete with more critical highway projects at this time. And I believe that if we are going to spend these additional funds—and some economists may question that decision—we should do it in a manner that is fair and reasonable. This will allow every State to use these funds to expedite these projects, such as the Avenue of the Saints or Highway 63, that are truly ready-to-go projects, projects that are already under way.

It has been my pleasure and I look forward to your decision with regard to the economic stimulus package, and I have also included the City & State article for your consideration.

Mr. WISE. Thank you.

[The article referred to follows:]

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Will Clinton play Santa?

Non-essential, unready projects litter cities' infrastructure wish list

By GARY ENOS
Staff Writer

Many mayors have embraced a two-step strategy for dealing with the national infrastructure crisis.

First, win federal funding for 7,252 "ready-to-go" building projects in 506 cities. Then watch the jobs roll in.

But a closer look at the list of stalled public-works projects compiled in February by the U.S. Conference of Mayors (USCM) reveals a more complicated picture. While mayors assure President-elect Bill Clinton that federal money would unleash a torrent of local building activity, some of the costliest items on the USCM list are months or even years away from construction.

And while the list contains plenty of the core infrastructure projects that economists believe enhance long-term productivity, it also includes several items more apt to be termed wants than needs, such as ball fields, community centers and police stations.

"What the Conference of Mayors did was a wish list, like asking kids to come up with a list of what they want from Santa Claus," said David Wyss, chief financial economist at DRI/McGraw Hill, Lexington, Mass., an economic-research firm.

Indeed, the USCM took every city's submission at face value, trusting that each project had received the approvals necessary for construction to start, lacking only the funds to proceed.

Last January, at the request of U.S.

*See **Projects** on Page 17*

Projects

Continued from Page 1

Senate leaders, the Washington-based USCM asked officials in cities of 30,000 or more residents to submit lists of ready-to-go projects. By late February, the total reached 7,252 projects in 506 cities, costing an estimated $12.9 billion to kick off in 1992 and creating 418,415 jobs in the same year. About half of the work identified in the survey could be completed within a year.

Several survey responses reveal interesting comparisons. For example, Pittsburgh identified $162.6 million in ready-to-go projects, while Fall River, Mass., a city one-quarter of Pittsburgh's size, valued its needs at nearly the same amount.

However, $130 million of Fall River's $165.4 million total is tied up in one project — construction of an underground storage area to rid the city of a combined sewer overflow problem. And that project is actually several months away from being ready for construction, Fall River officials admit.

Lists may be incomplete

Officials in several cities acknowledge their lists may be incomplete. Fort Wayne, Ind., senior planner Gary Stair said he had only a few days to gather project submissions from the city's department heads.

"The definition of 'ready-to-go' depended on each department. I left it up to them," Mr. Stair said. "Usually it meant the project had been designed or was similar to a project we had already done."

Two small items on the city's original roster — a park lighting installation and an airport security fence — were funded this year with local money. The largest projects on the city's $65 million list remain $27.1 million for park improvements, including additions to a children's zoo, and $13.9 million for street resurfacing.

DRI's Mr. Wyss, a Fort Wayne native, has no problem with spending federal dollars on street repair. Infrastructure investment as a percentage of the gross national product has fallen to less than 0.5% since 1980 from 1.25% in the 1960s, he said, and crumbling roads and bridges mean lost productivity. But Mr. Wyss questions the use of scarce federal money on recreation needs, even in his hometown.

"Repairing a zoo may be a nice thing to do, but does it improve productivity?" he asked.

Experts say if Mr. Clinton is to spend up to $20 billion a year on public-works projects to create jobs, he should focus on transportation, environmental cleanup and other core infrastructure to lend a long-term stimulus to the economy.

Pennsylvania Gov. Robert P. Casey, who has made infrastructure financing a cornerstone of his administration, stresses projects that enhance economic development. The state poured $90 million into and around Pittsburgh's new airport because officials predict explosive growth near the facility, Mr. Casey said.

Officials with the USCM insist it was not their job to pass judgment on each city's list of projects.

"The context of all these projects is their ability to create jobs," said USCM spokesman Mike Brown. "We don't interpret Mr. Clinton's words about infrastructure as meaning he supports every project on our list."

Necessary to prioritize

Most city officials agree that someone at some point will have to prioritize the projects on the USCM's cumbersome list, published in two thick volumes. How that will be achieved is anyone's guess.

"There is nothing that says when something is a pork-barrel project and when something isn't," said Don Haider, a member of the execu-

tive committee at the Infrastructure Technology Institute, a federally established clearinghouse for infrastructure research at Northwestern University, Evanston, Ill.

On nearly every city's list appear one or two projects that, if they are not pork, probably cannot be coupled with roads, bridges, sewer lines or other core infrastructure.

Heading the list of $129.8 million in projects for Oakland, Calif., is $73 million for City Hall work. Some money would be used to repair damage from the 1989 San Francisco Bay area earthquake, while some would help add seismic strengthening to the building. Miscellaneous parks and recreation improvements also dominate Oakland's list, with items such as construction of an 8,000-square-foot community center and the resodding of nine ball fields.

Included among Pittsburgh's list of bridge repairs and street reconstructions is $4.6 million under the category "stadium pedestrian ramps."

Terry Lorince, capital budget supervisor, said the city wants to upgrade walkways that visitors to Three Rivers Stadium use to reach the stadium from downtown.

While the most expensive items on both Pittsburgh's and Fall River's lists seem justifiable as productive infrastructure, both seem far from being ready to go.

Intermodal transportation

Pittsburgh officials are discussing a $50 million intermodal transportation project that would link outlying highways to downtown public transportation. But, Mr. Lorince added, "We need to get started on the intermodal center. We've been studying it for the last two years."

In Fall River, officials listed the underground storage area for combined sewer overflows even though the project has not been designed. "We could probably do the design within six months," said City Administrator Robert L. Connors. "Obviously that project is less ready-to-go than some others."

Northwestern's Mr. Haider believes many communities underestimate the speed with which they could spend federal money on public works. At the Chicago Transit Authority the average turnaround time from the moment a bid request is sent out to the start of construction is three years, he said.

The only way Washington or state and local governments can speed things up is to suspend environmental reviews, bidding requirements and other checks that slow the process, Mr. Haider believes.

"We usually short-circuit the rules only in times of crisis," Mr. Haider said. "If the administration were to call for this, it would be at loggerheads with the vice president-elect" because Albert Gore Jr. is an environmentalist.

Others suggest that eliminating federal matching requirements, like the 20% state share for highway projects, would loosen the infrastructure logjam.

But analysts like Mr. Wyss believe matching funds ensure local accountability in infrastructure planning.

"If a state or local government is not willing to come up with a portion of the money for a project, that to me says something about the project's worth," Mr. Wyss said.

While some mayors are hoping Santa Claus arrives late this winter (at the Jan. 20 inauguration, to be exact), many realize they cannot simply hand over a list of 7,000-plus projects and expect funding.

"If you're going to use the USCM list as a guideline, give cities another opportunity to reprioritize the projects," argued Mobile, Ala., Mayor Michael Dow.

Then he added a strong caveat. "We ought to look at the scale of these projects, so we don't do anything that threatens to push the country further into debt." ■

Mr. WISE. To the gentleman from Massachusetts, I was struck by something you said. As I recall, the original construction grant program was $5 million a year. It was then cut as a construction, as a grant program, or I think at that point it was 75 Federal, 25 local. It was then cut to $2.4 billion a year and then went to 55 Federal, 45 local, except in certain situations, and then, of course, was converted into the State revolving fund, which is 80/20, and that is set to expire in 1994.

Do you have some thought on what the allocation ought to be? Hopefully, the Congress, this committee, will be reauthorizing that act. Do you have any thoughts on the allocation, particularly for hard hit areas?

Mr. FRANK. I think we should get it up to at least the 70 percent figure. And as you point out, and you have the figures better than my recollection, but it is not just the change in the ratio, but we have shifted from a grant to a loan. So that is an even bigger hit on these communities. I would like to see something like 75 percent.

I think the States ought to be asked to put some of it in, and user fees are a relevant part of this. We want people to understand water is a limited resource. We don't want people to use it without regard to the replacement cost and the treatment cost, and we don't want people to be building plants without some budget, but we should return to at least a 75 percent Federal share as a reasonable thing over the long haul.

We are talking here—and it doesn't necessarily have to be put all up-front in the budget. Again, part of this is we have communities that want to be economically viable to a great extent and to provide places of employment.

In Boston, by the way, they have started digging wells. This has become an issue in Boston. Some of the enterprises in Boston are digging wells not for drinking but for washing and other things because of the cost, and that raises health hazards and other problems.

The Federal money doesn't all have to come up-front, because many of those projects can be bonded, and we can talk about a payment schedule over a period of time when payments come back in. But I think a 75 percent grant program is an appropriate one for a program of this magnitude.

Mr. WISE. To the gentleman from Iowa, in terms of projects ready to go, do you have any particular criteria to suggest for determining what those would be? The theme seems to have been from the witnesses that have appeared, the Governors yesterday, the mayors before that and others, some Members, is that there ought to be a lot of flexibility given to States to decide what it is they need as opposed to trying to fit the criteria of any particular Federal agency. Also, in a short-term package versus a long-term, but in a short-term package you want to move quickly, and the States have on their shelves the projects they know are ready to go.

You raise a point of concern, and I wondered if you have some, how you would define a project ready to go that would be eligible for this type of funding?

Mr. NUSSLE. It has to be a project that has been previously approved by this committee or at least discussed at some time and approved at least through part of the process. I would love it to be limited to those projects that have already been approved and signed and money is already flowing.

My concern, as a bottom line, is that this will be a bill that quite a bit of pork barrel legislation, or there can be pork barrel projects attached to, not because we are concerned about infrastructure, not because we are concerned about creating jobs, but we are concerned about keeping our own job and getting reelected, which seems to be quite a concern around here.

I have that concern as well as I am sure every other Member, but I don't think that should be the overriding concern today with a short-term economic stimulus package. It needs to be to create those jobs. And based on what I have been able to read and glean from other testimony before other committees, other economists, although they oftentimes differ, it appears the best way to provide that is through projects that are under way.

So I will leave you with the definition in your judgment, but I believe it should be projects that have been approved and money is already flowing.

Mr. WISE. I appreciate that.

Ms. Molinari.

Ms. MOLINARI. I only wanted to thank my colleagues for their comments. We are starting to get to the core of this issue with everyone coming forth in the last few days to testify on projects or give their suggestions, and I think one of the things that Congressman Frank pointed out, and I could not agree more is that everyone has come forth to say the Federal Government should fully fund all these projects.

I think that that puts us into, obviously, two difficult spots: Number one, there will be less projects we are able to afford to fund, if we totally reduce the obligation of any municipality or State; and, number two, I think, Jim, that is when we get into the problem of States or municipalities picking projects that are probably not higher on their priority list.

If we engage local and State governments in some sort of financial obligation, they are going to be a little more committed to choosing those projects that are the most worthwhile in terms of the long-term prosperity and viability of a State or city.

So I think that is something as a Congress we have to start to focus in on. While it sounds well and good to say the Federal Government should come in and rescue States and cities from their financial doldrums, we, obviously, have a problem, if not a larger problem economically, than any one of those. So I think that is an issue we have to pay attention to when we discuss this stimulus package.

Mr. WISE. The Chair recognizes the gentlewoman from Florida, Miss Brown, for any questions she might have.

Ms. BROWN. No questions, Mr. Chairman, at this time.

Mr. WISE. Gentleman from Massachusetts, Mr. Blute.

Mr. BLUTE. Thank you, Mr. Chairman. Let me just agree strongly with my distinguished colleague from Massachusetts about the effect of living up to the Clean Water Act mandates on a city that

we share, the city of Fall River. It has potentially devastating effects on that city. The city already is in financial trouble, has a high unemployment rate, is trying to, as he said, educate its kids reasonably, and already has tremendous economic problems. And this huge cost associated with this Federal Clean Water Act is really going to cripple the city, if it hasn't already, and I just want to ask my colleague, Congressman Frank, to speak to that.

He has represented this city for a lot longer than I have, and I wonder if he can comment on the impact of that on the city to come up with this kind of, these types of resources?

Mr. FRANK. Certainly. As you know, we are talking here about some of the industries which are heavy users of water, the textile and garment area. The finishing business. I have talked to several of the companies, and, in some cases, their water bills are—these are not speculations—are going to triple or quadruple. Any profit they make will just disappear, and what then happens is they leave. Some of these people will leave.

They have reasons to leave anyway. The textile and garment industry has been hit hard in the Northeast. The textile industry has been disfavored by Federal policies of a variety of sorts over the years. As they leave, the people left behind have to pick up their costs because the cost of the physical plant—there is no great decrease in the cost of these plants when there are fewer users, and the result will be a drastic loss in industry in communities already in double numbers of unemployment.

Mr. BLUTE. For example, one of the manufacturers said their water assessments would go up overnight in one year from $400,000 a year to a million dollars a year and that they could not realistically stay in the city. So I think what you see is if something isn't done on the reauthorization and funding it, there would be a downward spiral for a city that is already in trouble. I don't think we can allow that to happen to our older urban areas.

Mr. FRANK. And many of my friends have said we want to make sure that the public does not see a conflict between environmental cleanup and jobs. And, logically done, there shouldn't be. The environmental efforts are helpful, but the current structure of the Clean Water Act makes, unfortunately, environmental cleanup in the short-term, in some localities, the enemy of employment.

And we are the ones sitting here who have the ability to reverse that, and people should understand the environment, then, is at risk. Because in some parts of the country you will drive people away from the kinds of support they should be giving on the merits of the environment and we can make them harmonious again. These projects will employ people themselves.

That is why the clean water projects, like some of these others, have a dual impact: One, they employ people in the course of carrying them out, but they also significantly improve conditions in which other work can be carried out subsequently.

Mr. BLUTE. Thank you, Mr. Chairman.

Mr. WISE. I would just like to add my concurrence with the gentleman from Massachusetts, but also want to note, in terms of a short-term package, it would seem to me the Clean Water Act gives, and increased funding can, for these projects, give us the op-

portunity to quickly get some projects moving. Every community in my State is——

Mr. FRANK. Is ready to go. As long as you agree with this one, because, certainly, it would not make much sense to do that in the short term unless it is continued in the long term. You don't want them to accelerate and then cut them back.

Frankly, look, there are some municipalities I know of where there are debates, there are members of city councils saying that they will go to prison—not an unheard of place for members of city councils in some places in the past, but perhaps for different reasons—sorry, counselor—and the fact is that the novelty that Federal help is coming would speed these projects up because some of the obstacles are not just the physical construction obstacles but political and legal delays by people who say I will not commit my city to that vast expenditure. If you can tell them funding is now in place, you will get much quicker responses.

Mr. WISE. I thank the gentlemen who have testified. I am now going to turn to Ms. Brown for an opening statement, if she wishes to make one, and if you wish to stay or go, Mr. Nussle, Mr. Frank, please do.

Turning to the gentlewoman from Florida, who I greatly appreciate for her interest in this committee and her faithful attendance at this hearing.

Ms. BROWN. Thank you, Mr. Chairman, and I want to commend you for your leadership on this committee. These hearings are essential and important and I want to commend you for your leadership in this area.

I have a brief oral statement, and I realize I am singing to the choir, but, just the same, I want to do that, and I have a written statement I want to submit.

Mr. WISE. It will be made part of the record.

Ms. BROWN. Mr. Chairman, the time is now to create jobs, get the economy moving and set the course for long-term prosperity. In pure economic terms, we have now been out of the recession for 23 months, yet growth continues to hover around a dismayed two to three percent. As Lawrence Hunter, chief economist for the U.S. Chamber of Commerce testified before the committee last month, this country is experiencing the lowest post-Cold War recovery on record.

In addition, I would note that most economists believe that such a growth rate does not create jobs. In looking at this Nation's unemployment figures, I tend to agree. The December unemployment rate of 7.3 percent is higher than it was 13 months ago. Further, there are 200,000 fewer jobs in the economy than there were at the end of the recession 23 months ago.

In the minority community, the economic number is of dismay. The unemployment rate for blacks is 14.2, almost double the overall unemployment rate. Even more shocking is the fact 32.7 percent of all blacks live in poverty as compared to a 9.4 percent rate for whites.

The point is, current economic stagnation is having an incredible profound effect on the minority community, a community which makes up more than half of my congressional district. Given the fact that the Congressional Budget Office estimates that each per-

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centage point of unemployment adds $50 billion to the deficit, something had better change fast. In order to do this, the focus of this committee, the Congress, and the President should be on a quick passage of the economic stimulus package.

And let me say this is not spending for the sake of spending. These are investments in America that are long overdo. And, once again, I want to commend you and Chairman Mineta for your leadership in this area. Thank you.

Mr. WISE. I thank you and know you prefaced your remarks by saying you knew you were singing to the choir. Could I echo hallelujah?

[Ms. Brown's prepared statement follows:]

Statement of the Honorable Corrine Brown
House Economic Development Subcommittee
February 3, 1993

Mr. Chairman: I want to thank you and the ranking member Susan Molinari for continuing to hold these most important hearings. Economic stimulation must be our primary concern right now and our Committee's work continues to provide valuable insight into how to construct a growth package. Further, I think it is critical that we continue to establish jurisdiction for such legislation and I applaud you for taking the leadership on that. I also want to thank the full committee chairman, Mr. Mineta and the proactive role he continues to play in keeping infrastructure investment, job growth and economic stimulation at the forefront on this Nation's public policy agenda.

Mr. Chairman, throughout last year's presidential campaign, Bill Clinton did not miss a day without highlighting the anemic nature of the American economy. President Clinton focused his message on our sluggish economic growth rate, the stagnate unemployment rate and a quality of life which refuses to improve. By and large, Clinton's victory was predicated on the American people's desire to pull out of this disastrous slump and quickly ascend toward economic progress. Fortunately Clinton had a plan; a plan which focused on infrastructure investment as the answer to short-term job growth and economic stimulation as well as long-term economic prosperity. Across the Country, this message was

delivered and enthusiastically received.

Now that the campaign is over, President Clinton is working to convert his rhetoric into workable public policy. Yet his challenge will be to successfully confront what has become a dramatically polarized situation. Some Clinton advisors are telling the new President to cut the budget deficit at any cost and that dramatic reductions in government spending are the only way to spur the economy. Others are advising President Clinton to enhance government spending in the short-term in order tc reduce the deficit and expand the economy in the long-term.

It is the latter of these two philosophies that President Clinton preached throughout the Summer and Fall of 1992 and it is to that philosophy which he should now adhere. If he continues to follow this course jobs will be created, the economy will grow and the deficit will be significantly reduced.

In order to clearly understand why an economic stimulus package is necessary, it is important to review some recent statistics. In pure economic terms, our Nation's most recent recession ended 23 months ago. However, since that time, according to Lawrence Hunter, chief economist for the U.S. Chamber of Commerce, "The U.S. economy has experienced the slowest post-Cold War recovery on record." In this post-recessionary period, economic growth has hovered between two and three percent. While that may seem positive, consider that most economists advise that

it takes growth far greater than three percent to consistently add jobs to the economy. Put simply, our current growth rate is not enough to put people back to work and, unfortunately, there seems to be no hope for optimism in the near future. The Congressional Budget Office, the Blue Chip Consensus and other leading economic forecasters predict a growth rate of between two and three percent for the rest of 1993.

Proof of the economy's inability to create jobs may be seen in our consistently stagnate unemployment rate. December's rate of 7.3% is <u>higher</u> than it was 13 months ago. Even more startling is the fact that there are actually 200,000 <u>fewer</u> jobs in the economy today than there were at the end of the recession 23 months ago. This 7.3% figure would actually be a relief in some of the counties in my district. Two of my counties have unemployment rates higher than eight percent and five others have rates which exceed seven percent.

For the minority community, the economic numbers are even worse. The unemployment rate for blacks is 14.2% -- almost double the overall unemployment rate. Even more shocking is the fact that 32.7% of all blacks live in poverty, as compared to a 9.4% poverty rate for whites. Unfortunately, according to Dr. Margaret Simms, the director of research programs at the Joint Center for Political and Economiic Studies, these numbers do not tell the whole story. She pointed out in testimony last year before the House Post Office and Civil service Committee that the poor are getting poorer and

the stagnate economy is having its greatest impact on the minority community.

Aside from the social consequences of the disastrous unemployment rate, there are economic costs as well. According to the Congressional Budget Office, each percentage point of unemployment add $50 billion to the deficit. Such a compelling statistic forces us to begin creating new jobs.

The time to reverse this ominous trend is now and the best way to do it is through meaningful short-term and long-term infrastructure investment. The reason for this is simple -- there is a vast amount of infrastructure rehabilitation work that needs to be done and such an investment is the quickest, most effective way to create jobs and strengthen the economy.

Consider the following numbers: According to a recent report by the Federal Highway Administration, there are 265,000 miles of pavement considered to be at or below accepted engineering standards for cost-effective maintenance. In addition, there are 238,000 bridges rated as structurally deficient or functionally obsolete. Research from the Federal Transit Administration indicates that over 12,000 transit buses currently in use are older than 12 years -- the recommended replacement age. The Federal Aviation Administration has determined that 23 of the nation's top 100 airports are unacceptably congested and that the number of congested airports will rise to 40 by the end of the decade if

significant capacity investments are not made. The Environmental Protection Agency estimates that over $80 billion in public wastewater treatment facilities will be required over the next 20 years, yet current funding is not keeping up with the needs. Beyond these amazing numbers, it is fair to say that almost every city and town across the Country could submit monstrous lists of infrastructure needs which include new and/or rehabilitated schools, libraries, housing, public health facilities, storm water protection, local roads and the like.

According to a recently released study by the American Association of State Highway and Transportation Officials (AASHTO), the 50 states could together spend $8.5 billion more on federal-aid highways this year than is currently available. For my home state of Florida, this year's highway needs exceed available funds by almost $161 million. The AASHTO study further indicates that if the federal-aid highway program was expanded through 1996, an additional $22.8 billion worth of "ready to go projects" could be funded.

Infrastructure is a publicly owned commodity and just as we share the roads, bridges and highways we also share the added cost of deficiencies. The Federal Highway Administration reports that the cost of congestion in terms of delayed travel and fuel consumption in the Country's 39 largest metropolitan areas was over $34 billion. Citing U.S. Department of Transportation data, Robert A. Lutz, president of Chrysler Corporation and chairman of the

Highway Users Federation, recently said that, "... if our roads continue to deteriorate, by 1995 [we will experience] a loss of 3.2 percent in gross national product, 5.9 percent in disposable income and 2.7 percent in manufacturing productivity." Airport congestion, according to the FAA, creates $1.5 billion in additional costs to the airlines per year. This is an expense that an already financially strapped industry can ill afford to bear any longer.

It is clear from all that I have said today that our Nation's significant unemployment rate and infrastructure deficiencies are contributing to our mammoth federal debt. In order to brighten the economic future for everyone, I propose that we follow the plan carefully developed by Chairman Mineta and share it with anyone who will listen, just as he has shared with President Bill Clinton, Budget Director Leon Panetta and others.

The Chairman has proposed a policy of short-term and long-term infrastructure investment which makes sense. The policy creates jobs, stimulates the economy, reduces the deficit and improves the Nation's infrastructure.

The Mineta plan would create a short-term stimulus in the following manner:

* a $5 billion investment in repaving, resurfacing and rehabilitation highway, bridge and transit projects which

could begin immediately;

* an $800 million investment to fund repaving, resurfacing and other job-intensive projects at out Nation's airports;
* a $5 billion infrastructure program designed to assist state and local governments for the construction, rehabilitation or repair of a wide range of important public facilities like those I mention earlier in my testimony and
* a $1 billion increase in water pollution control needs.

To complement the short-term strategy, Mineta advocates both the full funding of and additional funding for federal programs already in place and authorized by Congress. These include:

* the full funding of the Intermodal Surface Transportation and Efficiency Act of 1991;
* the full funding of the Airport Improvement Program and
* a $4 billion per year investment in water pollution improvement and construction needs.

All told, this program advocates a $16 billion infrastructure investment in 1993 and would immediately create almost 1 million new jobs. In addition to those jobs, the long-term investment would create another 50,000 jobs per year as long as the investment continues. In terms of deficit reduction, this program helps to solve the problem. The reduced unemployment would reduce the deficit by $50 billion in the first year alone.

In terms of economic growth, this plan is also a winner. According to the Congressional Research Service, new infrastructure investment positively affects industries accounting for more than 80% of the U.S. economy. Further, a September, 1992 forecast released by the economic forecasting firm of DRI/McGraw Hill, Inc. indicates that for every $1 billion in new infrastructure spending, $2.43 billion is added to the economy. In addition, Congressional Budget Office data indicates that a change in economic growth of only one percentage point decreases the deficit by $100 billion per year. With these figures in mind, imagine what a $16 billion first year infrastructure investment and significant investments in future years would do for the economy!

It is time to stop talking about the need to lessen our Nation's woes and get on with the business of actually solving the problem. The plan outlined above does what the American people are asking for and, therefore, should be the focus of this Committee, the Congress and the President. Again, I appreciate the time and dedication of this Committee and its leadership. I look forward to being a part of the progress!

Mr. WISE. I recognize the gentleman from Kentucky, Mr. Mazzoli, and we are delighted to have you join us.

We are discussing the role of infrastructure and any kind the economic stimulus package and growth package, both long and short term, and we appreciate your observations.

TESTIMONY OF HON. ROMANO L. MAZZOLI, A REPRESENTATIVE IN CONGRESS FROM KENTUCKY

Mr. MAZZOLI. Mr. Chairman, thank you very much, and I have a statement which I will submit for the record, and, with your permission, have it made a part of the record. I will be very brief and appreciate your working me in. I realize how busy you all are today.

Let me, first of all, piggyback on what my new colleague, Corrine, said a moment ago, and that is while we might be 23 months out of recession, that is a technical matter most people cannot grab onto because it still hasn't meant the jobs have been recreated.

The fact of the matter is, Mr. Chairman, those jobs may not ever come back, and that is why this committee has such a big job ahead of it and this Congress has such a big job ahead of it in trying to fashion this new America. We have heard about the new world order, and that is extremely complex and challenging, and no less complex and challenging is the new America, and your committee will help form that.

Mr. Chairman, again, thank you for letting me talk a moment about simulating the economy and spurring job growth. It is to your everlasting credit and the credit of this committee and one of our predecessors who left us at the end of last Congress, Bob Roe, who gave great leadership to the full committee, that we have begun thinking about this matter; that we can help create jobs; that the government does, in fact, have a creative role in putting America back to work and in creating, on the part of Americans, an incentive to gain new skills in order to be a part of whatever the economy will be after the beginning of the next century.

As we said before, while statistics might say we are in a period of nonrecession or even growth, that has not translated in Louisville, Kentucky, which I feel privileged to represent, or Jefferson County or our adjoining State and next door neighbor, West Virginia, at all in jobs. We still have, back in Louisville, 6.8 percent unemployment; almost 20,000 people not employed today that ought to be.

So it seems to me that the clear responsibility of the Congress and the Clinton administration is to put first and foremost together a sensible, proper, deliberate package of job creating, job stimulus, economic advancing legislation.

I couldn't help but notice, Mr. Chairman, how sometimes we go backwards to go forwards. And you have been my colleague a number of years here in the Congress, and you might remember back where certain terms were considered almost negative, and one of them became the Public Works Project. There came a time, in my experience here in Congress, where you could not really say that word anymore.

I just would say this, whether we shift that to infrastructure, whether we shift it to public investment, whatever euphemism we may want to use, whatever elegant phrasing we may want to use, what we are talking about is what helped America back in the 1930s. It helped America well into the 1940s. It helped America get some of its most beautiful buildings and most important architecture, some of its most important mundane things, like sewer systems and roads and bridges.

I would say that we should not hesitate to look backwards in order to look forwards, and I think that is exactly what your panel will be able to do and I think will do, and that is to look at what worked before and what can work again. We may not have the same mix of projects that we had in the 1930s. It is a new century, I mean a new half century, a new activity, but at least the ideas that Bob Roe and Norm Mineta and Bob Wise and your panel today represent, which is to look at the programs that are so-called ready to go and try to provide money for those.

I would say, Mr. Chairman, I meet regularly, as I think all of us do, with our local officials, including Mayor Jerry Abramson, who, I might say parenthetically, will become the President of the National Conference of Mayors next year. I met him along with his division heads just within two weeks ago, so I got a good idea from them and County Judge/Executive, Dave Armstrong, from his people at the county level, and just yesterday talking to Governor Brereton Jones from the State level, of what our people can use. They can definitely use an economic stimulus package that does provide spending for a proper mix of infrastructure; what we used to call public works.

And I would say lastly, Mr. Chairman, just to kind of relate it to what we have, I think the ISTEA bill, which, of course, we passed with a lot of fanfare, should receive full funding. I might mention in Louisville, Jefferson County, it is not different than at least West Virginia, older States, mature cities. They have older and maturing and almost deteriorating sewer systems, bridges and culverts.

And I checked just today with Gordon Garner, who heads up our program at home at the Metropolitan Sewer District, and while Gordon was, at this point, unable to put a dollar figure on it, the last time I looked it was something like $60 million or $70 million of projects that could go right in, and one near where I live in the south part of town, has constant flooding; not from being in the floodplain, but from backup from waters.

The sewers are, I guess they call them unified sewers that carry both wastewater, or the waste, as sanitation, as well as the surface water, cannot handle that. So you need to separate that out.

In Louisville, it is millions of dollars. Nationally, it is billions, but the engineering is done. It is not the space age sort of stuff, and they can put a lot of people to work. So I would encourage, Mr. Chairman, whatever this committee can do on sewage and training projects, please do it.

And, last but not least, we saw this week Amtrak is using that Swedish train, that X–2000, sort of an articulated train, to move people more quickly along the eastern corridor. I think something like rail transportation, light rail—moving people within Jefferson

County, which is a fairly large geographical county, back and forth from where the people live to where the jobs are and to where the shopping areas are, that we have had under the Transit Authority of Rivercity, TARC, as we call it, would again be quick, understandable programs. You don't need the highest technology. It is on the line.

And so whatever your committee can do, Mr. Chairman, in creating jobs today and by using and implementing local authority, where people at the local level, the mayors and the county judges and Governors have done their job of laying out these programs, I think would be so helpful. Because then, instead of waiting for three months, six months or nine months, and then having the American people say we are going through that routine again, we can get these started by late spring or early summer.

So thank you and thank your panel and wish you good luck.

Mr. WISE. Thank you, Mr. Mazzoli.

I would just add I would hope our goal is that we have signs that say jobs in America up over thousands, hundreds of thousands of projects by early summer.

I think you are absolutely correct, and I want to make a personal reference. You mentioned Governor Jones, who I have a warm spot for since his family resides in my district and I have had the privilege of representing them, and working with his brother as well, who is a State senator in West Virginia.

Mr. MAZZOLI. We are very proud of this son of West Virginia, but he is a full-fledged Kentuckian. You cannot have him back.

Mr. WISE. I saw him the other day and he made no bones about it. Bob, you do all you can, but I live in Kentucky.

Mr. MAZZOLI. Son of the bluegrass, not of the mountaineer.

Mr. WISE. I thank you for your statement and for your preparation. If you can stay, fine; if you have to leave, please feel free.

[Mr. Mazzoli's prepared statement follows:]

STATEMENT OF CONGRESSMAN RON MAZZOLI
BEFORE THE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
OF THE
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
FEBRUARY 3, 1993

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to share my views on the need for legislation to stimulate the economy and spur job growth. I commend you for holding this hearing and for taking the initiative on this critical matter.

While recent statistics may reveal that the nation's economy has entered a phase of self-sustaining growth, the national recession has stagnated the economies of many communities like mine in Louisville and Jefferson County, Kentucky. Furthermore, the unemployment rate remains unacceptably high. In my hometown, the unemployment rate is 6.8 percent, which represents a total of 19,030 men and women.

Clearly, the need is great to provide relief to our jobless men and women and to give momentum to the upturn in America's economy. In my view, the much talked about proposal to achieve these goals by investing in infrastructure projects — roads, bridges, sewers — is one that has much merit.

In the 102nd Congress, I was an early and strong supporter of legislation introduced by the distinguished former Committee Chairman, Robert A. Roe, which would have authorized funds for infrastructure projects that are "ready to go". Such an approach to job creation is an expedient one, since communities throughout the country, including Louisville and Jefferson County, have numerous projects on the shelf and awaiting start up.

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Mr. Chairman, I regularly meet with Louisville and Jefferson County elected officials and have the opportunity to talk with constituents in my District. Their message on the topic on the economy is distinct: create jobs and create them quickly.

An economic stimulus package that includes spending for infrastructure would not only address these concerns, but would also be compatible with the Administration's blueprint for reviving the economy. This plan has my full and enthusiastic support and I stand ready to assist the Committee in any way I can.

Once more, Mr. Chairman, I appreciate your time and the opportunity to appear before you and our colleagues.

Mr. WISE. I'm delighted to have Mr. Machtley join us. We worked last year on the formula for the Local Partnership Act and, indeed, it is my understanding, Ron, that they have reintroduced that bill with our formula in it. So some things endure, and perhaps that can be the vehicle for discussion as this type of legislation moves forward.

Delighted to have you with us.

TESTIMONY OF HON. RONALD K. MACHTLEY, A REPRESENTATIVE IN CONGRESS FROM RHODE ISLAND

Mr. MACHTLEY. Thank you very much, Mr. Chairman. It is a privilege for me to be here before your panel and to discuss briefly some of my thoughts on this very important subject of investing in America's economic future, and I do commend you for your work on that particular issue.

I think one of the cornerstones of any infrastructure expenditure ought to be that whatever is funded is to be completed within the dollars allocated so that we do not find cities coming back for future dollars which, frankly, are not available.

I think it would be a serious mistake if we were to use our monies as seed money without ensuring that any projects funded through this investment program are completed with the dollars which are allocated through Federal, State, and local authority.

I think that we are seeing the signs of recovery, even in New England, but it is only the signs of recovery. I don't think we should rush to any judgment at this point and I think that we ought to look at the situation in terms of what is occurring in the economy, and how we can interconnect infrastructure monies with other sectors of the economy.

Unfortunately, as one commentator recently said in a business newspaper, people are frankly tired of economic recoveries lasting a few quarters then petering out the same way a sugar high does 30 minutes after we have consumed an ice cream cone. So as we begin to focus on economic recovery, we ought to think long-term, mixing infrastructure funding with what is going on in other sectors.

What I would like to discuss is the interconnection between downsizing our military and infrastructure spending. The downsizing is not going to be uniform across this country. Some communities are going to be impacted much more seriously than others. We are going to see enormous layoffs in technical areas which, unless we do something about it, are going to send engineers and technical people into unemployment lines.

As we are downsizing, which I think is inevitable, we should look at the technical skills people have in certain communities and try to funnel some of the infrastructure monies into those communities so that engineers and other technical people can shift quickly into non-defense areas.

I don't think we should just say we are going to parcel out this infrastructure money for highways uniformly across the country regardless of what may be occurring as a result of various government policies, particularly in the defense area.

Ira Magaziner, who is now the senior policy adviser to the President, based on numbers he has looked at, indicates there may be

some five million Americans who may be laid off as we are downsizing our military.

And as my distinguished colleague, Mr. Mazzoli, mentioned, high speed rail, innovative technologies for infrastructure investment, in addition to roads and bridges should be looked at as a way to transfer expertise. I think it is extremely important that there is a connection between the Defense Department's downsizing, it's how it's going to impact on various regions of the country, and any infrastructure investment program.

California is experiencing enormous downsizing problems. Connecticut is experiencing enormous downsizing problems as well. We have heard in the Armed Services Committee, where I sit, that it is too late once the people have been laid off to bring in resources to hire them. What we need to do is anticipate where the downsizing is going to occur.

I am sure the new Secretary of Defense, Les Aspin, who headed up our efforts on conversion last term, will be able to predict where these downsizings are going to occur. We should then try to funnel some of this infrastructure money into those communities to take advantage of the skills which they have.

As we look to the future, nothing is more important, in my estimation, than mass transit and making sure that we are not just building highways, which encourage more driving, but that we are encouraging people to use mass transit which would relieve congestion, as well as help our environment.

The electrification of the railroad from Boston to Washington, connecting with all the cities on the East Coast, and the testing of the X–2000 train along this corridor, is an excellent example of what we should be doing. We should not simply create jobs for pure purposes of creating jobs, but with an eye to the future.

I would also suggest that if we look at it in a rather new way, we could avoid Federal subsidies of airports. Everyone talks about the need for new airports in the Northeast corridor. However, if we take the Federal and State dollars which would be put into a new airport and channel that into some sort of high-technology mass transit, we might be able to save substantial amounts of money.

It is also important, as Mr. Mazzoli indicated, that we look at our sewer systems and our water systems. In our State of Rhode Island, we had a situation where three cities had over 100,000 people drinking bottled water for several months because the water mains were so old the water became contaminated.

The cities themselves are strapped, as we know in trying to develop the Local Partnership Act in the Government Operations Committee, and have trouble finding resources, particularly in the older cities, to rehabilitate and to install new water mains.

We should look at programs which are of a serious nature. But, again, I would go back to my first comment; Whatever Federal money is dispensed, ought to be for projects which can be completed within the allotted appropriation.

In the future, we will not have the ability to put in an additional 20 or 30 billion dollars into infrastructure programs. We must get that message out. Because if we don't, people will conduct business as usual and use Federal dollars for seed money thinking they can come back to the well in the future.

Our deficit, as the new President has indicated, is a serious concern. We must all be concerned about that. And as we look at our projects, my hope is that they will focus on the effects of military downsizing, projects that can be completed within the time and the money allocated and the long-term effects projects will have on our workforce.

I appreciate the opportunity to be here and commend you for your hearings.

Mr. WISE. I think your point is excellent, and that was, of course, what we tried to focus on in the bill last year, which ran into the end of the session and without passing and getting to the Floor.

But it seems to me crucial the American people know that this is going into something. There will be a capital investment; there will be a return, and it is something that will exist after the job was created and the construction industry is gone.

As you make the point, this is not a way to leverage monies for the big enchilada, the big project, but something that can be done within the context of the allocation that is made this year. I think your point is excellent on that.

I turn to the gentlewoman from New York.

Ms. MOLINARI. I have no particular question, but I want to thank my colleague for pointing out all the avenues we have to consider. Other people have come forth to testify relative to what the percentage of State and city share should be—how we guarantee the projects we are going to put forth are profitable long-term as opposed to having a short-term economic stimulus impact, and your point is well taken.

As someone who served on a municipal level, I am extremely familiar with a city's ability to acquire Federal monies and then put their hands up saying they did not have the portion to fulfill that obligation in terms of a project, and I think that you make a very good point, one we will have to require in any contracts that come out, as a result of this. I thank you for bringing the matter to our attention.

Mr. MACHTLEY. Thank you very much.

Mr. WISE. I look forward, Ron, to working with you this year on that formula. Hopefully, see if we can get it done this year.

Mr. MACHTLEY. Look forward to it. We will start earlier.

[Mr. Machtley's prepared statement follows:]

TESTIMONY BEFORE THE PUBLIC WORKS AND TRANSPORTATION COMMITTEE

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

February 3, 1993

Ronald K. Machtley

Thank you Mr. Chairman for holding this important hearing today on the future of our nation's infrastructure system. It is an honor to be here with you today to discuss our country's economic future and what kind of role infrastructure will play in the nation's economic recovery process.

As we are all well aware, our nation has experienced serious economic decline over the past few years. Solid middle class jobs, the kind that allow a single worker to be the family breadwinner, are disappearing in record numbers. In my home state of Rhode Island, the state suffered the nation's steepest job loss last year which pushed the unemployment rate to 9.3 percent, one of the highest rates in the country. Job losses in Rhode Island, the state banking crisis, along with low interest rates produced a meager 1 percent gain in personal income in the year ending March 1992. The lack of job opportunity in Rhode Island and the New England region as a whole has caused young, talented adults to move to more financially promising areas of the country. Although recent statistics on the economy show signs of improvement, it is obvious that some sort of stimulus is needed to generate full economic recovery.

Investment in infrastructure is one way of providing much needed jobs to all segments of our economy. Highway construction, alone, is estimated to effect 350 out of 430 sectors of our economy. The Congressional Research Service indicates that every $1 billion spent on new highway construction would employ an additional 24,300 workers. For every 100 workers employed in the building of new highways, approximately 128 jobs will be created in other sectors of the economy. Effected industries range from engineering, architecture and data processing to banking, real estate and even food services. This data does not even take into account the effects that construction and repair of mass transit systems, sewage and water facilities and government owned gas and electric utilities would have on the economy.

Improvements in our aging infrastructure can help save the federal government from wasting scarce taxpayer dollars on crumbling public works and transportation systems headed for disaster. We all remember clearly the Chicago floods, and the incident in Connecticut where the Mianus River Bridge on Interstate 95 collapsed causing commuter congestion and tragic loss of life. Over the last decade, cities and towns have increasingly had to rely on state funding for infrastructure repairs. With the downturn of the nation's economy over the last four years, it has been increasingly difficult for states to pay for much needed improvements causing them to delay repairs and rely on band aid procedures designed to cut costs.

Recently infrastructure failures hit home in Rhode Island when aging sewage systems forced businesses to close and citizens in Pawtucket and neighboring towns to drink bottled water for two months. Although renovations were underway, it is evident that if initial funding had been provided by the federal government, the resulting costs to businesses and citizens alike would not have occurred. The Pawtucket water crisis is a perfect example of the hardships every state faces when trying to pay for the increasing costs of infrastructure repair while, at the same time, dealing with high unemployment rates and runaway budget deficits.

The downsizing of our nation's defense industry is freeing up even more skilled labor. According to Rhode Islander Ira Magaziner, "a reduction in our military spending would result in some five million people being laid off. These people are highly skilled; the same skills that could be used in modern infrastructure." Through infrastructure investment, we could transfer expertise from military related fields to high tech industries and other growing areas of our economy. Infrastructure spending could be targeted towards the development of better mass transit systems, such as ongoing high speed rail projects along the Northeast Corridor and elsewhere, as well as better engineering techniques in road and bridge construction.

Such investments not only help to create jobs, but to relieve congested highways and improve the environment. For example, it has been estimated that congestion in city highways, such as Los Angeles County, costs $507 million in lost work time and wastes 72 million gallons of gasoline annually.

To strengthen our national competitiveness, we must make a long term commitment to our economy which includes reducing government waste and cutting the deficit as well as reordering our economic priorities towards the pro-growth aspects of our economy such as our infrastructure. In my own state, efforts such as the Northern Rhode Island Development Partnership, Main Street 2000, The Blackstone River Valley National Heritage Corridor, Bryant College and the University of Rhode Island's defense conversion projects demonstrate important local and state initiatives to build up our economy. Such initiatives deserve our support and leadership at the federal level.

Mr. Chairman, I thank you and the Subcommittee on Economic Development for holding this hearing today. I look forward to working with you and the other members of this subcommittee to strengthen the economy of Rhode Island and the other states of our country by providing much needed attention to specific job-creating projects for improving our infrastructure.

Mr. WISE. Pending the arrival of our next witness, who should be here momentarily, the Chair declares the committee in recess for 5 minutes.

[Brief recess.]

Mr. WISE. I declare this hearing of the Subcommittee on Economic Development resumed.

I turn to Ms. Molinari for a unanimous consent request.

Ms. MOLINARI. Thank you, Mr. Chairman. I would like to make a unanimous consent request on behalf of Congressman Robert Dornan from California to have his statement submitted for the record and as I understand, Mr. Cass Ballenger of North Carolina is going to submit a list of community infrastructure projects. I also request that this, too, be included into this record.

Mr. WISE. Without objection, so ordered.

[The prepared statement of Mr. Dornan and the item from Mr. Ballenger follow:]

HONORABLE ROBERT K. DORNAN

Testimony Before House Subcommittee On
Economic Development of the Public Works
And Transportation Committee

Honorable Robert E. Wise, Chairman
February 3, 1993

Thank you, Mr. Chairman, and members of the Subcommittee on Economic Development. It is a pleasure to be here today to testify regarding increased spending on America's infrastructure.

"It's the economy, stupid." Who would have thought, Mr. Chairman, that this almost childish, certainly child-like, remark would have grown into a campaign legend, certain to find its place in American campaign folklore? Yet it contained the essence of what the campaign was all about, which brings us to why we are here today -- how to improve our economic performance.

After all, a strong and influential U.S. depends greatly on our economic dynamism. Our economic dominance was once characterized by the phrase that when America sneezed, the whole world caught a cold. Today, as a result of the global economy, above average American unemployment, a high budget deficit, and a weak dollar, America seems to be the one that is catching the colds when the world experiences periodic sniffles.

No one will doubt that some serious medicine is necessary for our ailing economy. Yet some treatments are better than others in bringing about a full recovery. I would claim that a good dose of supply-side economics, falsely characterized as "trickle-down" economics during the campaign, would benefit the country the greatest, while others, like the President, push for a Keynsian "pump priming" approach to move America forward.

However, if "Clintonomics," the supposed remedy which is on the minds and lips of so many inside the beltway, is fully

February 1985 Wall Street Journal article entitled, Growth Alone Won't Do It. As you read, keep in mind that this was written after eight quarters of low inflation and a level of real growth -- a whopping 10.3 percent -- that President Clinton can't hope to match.

> "The U.S. economy can't grow fast enough to catch up with...deliberate high spending. Neither can the economy grow fast enough to overtake spending on an aging population interacting with too-generous transfer payment laws. Sen. Alan Simpson was right: 'No slot machine in America pays off like that.'"

Gregorsky's article is simple and to the point. It is near impossible for the U.S. economy to grow at a rate fast enough to offset the pace at which federal spending is expanding. Runaway entitlement spending is the principle reason for this rapid deficit growth and currently accounts for almost 1 of every 2 dollars the federal government spends. And if you think entitlement spending is bad now, Mr. Chairman, sit back --it'll be a nightmare soon enough. By the year 2001, it is estimated that entitlements will gobble up 60 percent of the federal budget. And as we move beyond the year 2001, entitlement programs will grow even faster as the baby boom population becomes eligible for Social Security and Medicare benefits.

So it is absolutely essential that any "cure-all" economic program include a detailed analysis of how spending programs will be cut. Without one, America's fiscal problems could forever be characterized as a dark downward spiral. Consequently, Gregorsky got it right -- growth alone won't do it.

Thus, the largest obstacle in the realization of this simple truth is the new Administration which -- just doesn't get it. The President claims that spending $20-$30 billion more annually

on infrastructure and high speed rail will create 275,000 jobs directly and more through a Keynesian multiplier effect. These new jobs will supposedly increase the tax base and result in more government revenue. In short, President Clinton purposes that we spend our way out of the deficit.

Now this is nothing but supply-side economics turned on its head. If you recall, supply-siders argued that lower taxes would pay for themselves through increased private-sector economic activity -- the kind that creates jobs. The supply-siders turned out to be right, but the deficit grew anyway because, as Gregorsky noted, growing revenues could not keep pace with increases in spending. The Clintonites, however, are proposing that increases in spending will pay for themselves. History shows this to be a dubious proposition.

Indeed, the problem with Clinton's plan is that in order to get the Keynesian spurt in economic activity he is looking for he must, by definition, increase the size of the deficit. But as we all know, the federal government has already run up huge deficits that are weighing down the country with debt. And any further increase will surely result in higher interest rates and higher inflation. The financial markets are watching us, Mr. Chairman. And the reality is that $20-$30 billion in a $6 trillion dollar economy is not going to even get the spark plugs warm, much less jump start the economy.

Moreover, if higher federal government spending were the way to get the economy going, the recession never would have occurred. Over the past four years, government spending has been growing rapidly. Domestic spending in the Bush-Foley-Mitchell years grew by $441 billion above the level of inflation. And

this figure excludes interest on the debt and the cost of bailing out the savings and loan banks. By contrast, under eight years of Ronald Reagan, domestic spending, using the same measures, rose by only $57 billion.

Furthermore, federal infrastructure spending since 1980 has averaged about $25 billion per year. In December 1991, George Bush signed the Intermodal Surface Transportation Efficiency Act (ISTEA). This authorized $151 billion in new infrastructure spending over six years. And there is even a real question as to whether states could efficiently spend the additional billions that President Clinton will propose. Indeed, much of what was authorized and appropriated in ISTEA has not been spent. Given the physical and staff limitations -- such as a shortage of engineers -- it is unlikely that increased spending on infrastructure will have the desired result.

With regards to putting people back to work, contrary to what Bill Clinton's theory of economics may indicate, the huge spending increase under Bush did not put people to work. Rather, unemployment rose from 5.2 percent in June 1990 to a high of 7.8 percent in June 1992. Higher taxes and more government spending did not create jobs and foster growth. Instead, higher taxes meant consumers had less with which to purchase goods and services and businesses had less to invest in new job creation.

It is also crucial for the new administration to realize that the government cannot take the place of the private sector in creating jobs. A good job should be measured as much by what it produces as what a worker earns in wages. In that regard, jobs that pay people to build boondoggles or pork barrel projects that benefit only the elected representatives involved (Miami's

mass transit rail system is a perfect case in point) do not help our long-term economic prospects and may impose additional future costs on government, for example operating subsidies. We should never confuse this with "investment."

As I understand it, the Clinton plan will indulge in deficit spending only for a couple of years and then tackle the deficit once the economy is moving. But this strategy begs the question: If deficit spending stimulates economic growth now, won't deficit reduction halt it later on?

And while the President expects to pay for spending hikes in part by eliminating wasteful government spending, which should indeed be cut, we can't forget that that is an enormous job in itself. Ronald Reagan, though often accused of making deep cuts in spending, in fact only slowed the growth of federal spending while eliminating no major programs. George Bush could do little to constrain the deficit and the free spending Congress. And now we're sitting here talking about increasing spending even more -- it just doesn't make sense.

Mr. Chairman, I firmly believe that the private sector, especially the small business sector, must be the engine of economic growth. The federal government, even with all its good intentions, is currently binding down the economy with regulatory chains and confiscatory taxes. Instead of rewarding government, we must create an environment which is conducive for business and stimulates natural, market-driven growth. Only this path will provide long-term employment. This, together with a consistent program to rein in Congress' runaway spending, should reduce the federal deficit and bring greater stability to the world's largest economy. Any effort to create these circumstances

through an unnatural, quick-fix, pump-priming, "spend a little more on infrastructure" type plan would be unwise, ineffective, and irresponsible.

Thank you, Mr. Chairman.

# # #

Congress of the United States
Washington, DC 20515

February 11, 1993

The Honorable Robert E. Wise, Jr.
U.S. House of Representatives
2434 Rayburn Building
Washington, D.C. 20515

Dear Bob:

Thank you for allowing me to submit a list of community infrastructure development projects to the Subcommittee on Economic Development of the Public Works and Transportation Committee.

I have attached a list of economic stimulus projects from my congressional district, submitted by the Western Council of Governments.

If you have any questions regarding the attached materials, please do not hesitate to call me.

Sincerely,

Cass

CASS BALLENGER
Member of Congress

CB:jgr

Western Piedmont Council of Governments
317 First Avenue, NW, Hickory, NC 28601
(704)322-9191

FEB 01 1993

January 28, 1993

Mr. John Rothrock
c/o Congressman T. Cass Ballenger
218 Cannon House Office Building
Washington, DC 20515

Dear Mr. Rothrock:

In response to your telephone request, attached are listings of potential economic stimulate projects provided by our local governments.

Please advise if you need additional information.

Sincerely,

Bobby

Bobby White
Director, Community and
Economic Development

BW/vbd
Attachments

Potential Economic Stimulate Projects
For

Town of Drexel
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	Sidewalk Renovations		$22,070.00	$11,035.00	$11,035.00
2)	Waterline Interconnect		$30,310.00	$15,155.00	$15,155.00
3)	Waterline Replacement		$56,860.00	$28,430.00	$28,430.00
4)					
5)					
6)					
7)					
8)					
9)					
10)					
11)					
12)					

Signed and Certified

1-18-93
Date

Morris Baker Town Manager
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

Potential Economic Stimulate Projects
For

ALEXANDER COUNTY
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	16 South Water	Water	$250,000	$25,000	$225,000
2)	Sugar Loaf Water	Water	250,000	-0-	250,000
3)	Bethlehem Water	Water	800,000	-0-	800,000
4)	Water Interconnect	Water	500,000	50,000	450,000
5)	EMS Base	General Purpose	75,000	25,000	50,000
6)	90 East Sewer	Sewer	400,000	30,000	370,000
7)					
8)					
9)					
10)					
11)					
12)					

Signed and Certified

December 21, 1992
Date

Charles Mashburn County Administrator
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

Potential Economic Stimulate Projects
For

Town of Catawba, N. C.
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	Hunsucker Area	(water)	$63,000.00	$6,300.00	$56,700.00
2)	Edna & Mayble Sts.	(water)	$75,000.00	$7,500.00	$67,500.00
3)	Hot Rod Road	(water)	$32,000.00	$3,200.00	$28,800.00
4)	Hudson/Chapel to Bolton Road	(water)	$275,000.00	$27,500.00	$247,500.00
5)	Drumstead (Eumon St. Influent Sewer	(sewer)	$290,000.00	$29,000.00	$261,000.00
6)	Edna & Mayble St.	(Sewer)	$180,000.00	$18,000.00	$162,000.00
7)	Community Recreation Park	(recreation)	$64,600.00	(value in land) $32,300.00	$32,300.00
8)					
9)					
10)					
11)					
12)					

Signed and Certified

12-22-92
Date

Name and Title
Mayor

*water, sewer, roads, fire departments, general purpose government, recreation facilities

Potential Economic Stimulate Projects
For

Town of Taylorsville
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	4th St. NE Water	Water	20,050	5,000	15,050
2)	Fire Hyd Replace	Water	22,500	5,625	16,875
3)	1st Ave. NE	Roads	19,000	4,750	14,250
4)	Northwood Drainage	Roads	5,000	1,250	3,750
5)	1st Ave SW	Roads	5,000	1,250	3,750
6)	Valve Replacement Project	Water	18,000	4,500	13,500
7)	3rd Ave Street wide	Roads	15,000	3,750	11,250
8)					
9)					
10)					
11)					
12)					

Signed and Certified

12-22-92
Date

Lu Rufus, Town MGR.
Name and Title

Potential Economic Stimulate Projects
For

City of Morganton, North Carolina
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	Waste Water Treatment Plant	Sewer	$5,000,000	$2,500,000	$2,500,000
2)	City Hall Construction	General Purpose Government	3,400,000	400,000	3,000,000
3)	Elevated Water Tank and Mains	Water	2,600,000	600,000	2,000,000
4)	Finish Water Storage Tank	Water	1,300,000	450,000	850,000
5)	Water Distribution	Water	1,200,000	100,000	1,100,000
6)	Waste Water Plant Generator	Sewer	800,000	200,000	600,000
7)	Electric Substation	Electric	500,000	25,000	475,000
8)	Sludge Centrifuge	Sewer	500,000	100,000	400,000
9)	Catawba River Greenway Trail	Recreation	425,000	50,000	375,000
10)	Sidewalk Construction	General Purpose Govt	300,000	25,000	275,000
11)	Parking Lot		250,000	-0-	250,000
12)					

Signed and Certified

December 21, 1992
Date

Michael C. Cronk
Name and Title
Michael C. Cronk
City Manager

*water, sewer, roads, fire departments, general purpose government, recreation facilities

Potential Economic Stimulate Projects
For
CITY OF LENOIR
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	CLEARWELL	WATER	850,000	200,000	650,000.
2)	PUBLIC WORKS FACILITY	GEN. PURPOSE	1,000,000	200,000	800,000.
3)	WATER SYSTEM IMPROVEMENTS	WATER	350,000	150,000.	200,000.
4)	SOCCER FIELDS	REC	100,000	0	100,000.
5)	STREET IMPROVEMENTS	STREETS	300,000	0	300,000.
6)	SEWER SYSTEM REHAB	SEWER	120,000	0	120,000
7)	AIRPORT IMPROVEMENT	AIRPORT	85,000	0	85,000
8)					
9)					
10)					
11)					
12)					

Signed and Certified

DEC 22, 1992
Date

James H. Hipp City Mgr
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

Potential Economic Stimulate Projects
For

CATAWBA COUNTY

(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1) PUBLIC HEALTH	GPG	$3.5 million	$500,000	$3.0 million
2) LAKE NORMAN SEWER	SEWER	$11.0 million	$500,000	$10.5 million
3) OXFORD WATER SYSTEM	WATER	$3.0 million	0	$3.0 million
4) MENTAL HEALTH BLDG.	GPG	$750,000	0	$750,000
5) DSS CHILD CARE COTTAGE	GPG	$700,000	0	$700,000
6) JAIL DORMITORY	GPG	$750,000	0	$750,000
7) BAKERS MTN. REC. PARK	REC.	$1.5 million	0	$1.5 million
8) OXFORD ELEMENTARY	SCHOOL	$1.7 million	0	$1.7 million
9) SOUTH NEWTON ELEM.	SCHOOL	$910,000	0	$910,000
10) CVCC EAST CAMPUS	SCHOOL	$3.3 million	0	$3.3 million
11) 321 SEWER	SEWER	$20.0 million	0	$20.0 million
12)				

Signed and Certified

12/21/92
Date

James N. Kee Dir. of Planning & Development
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

DEC 1 9 1992

Potential Economic Stimulate Projects
For

CITY OF CLAREMONT

(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1) HEART DR/KELLY BLVD	ROAD	400,000	25,000	375,000
2) LEELAND TERRACE	WATER	1,000,000	50,000	950,000
3) PROGRESSIVE OUTFALL	SEWER	70,000	10,000	60,000
4) SHANGRI-LA OUTFALL	SEWER	100,000	10,000	90,000
5) SHANGRI-LA	WATER	200,000	20,000	180,000
6) B & B ROAD	WATER	300,000	20,000	280,000
7) KELLY BLVD/S. DEPOT	WATER	200,000	20,000	180,000
8) ROCK BARN	WATER	200,000	20,000	180,000
9) BUNKER HILL SCHOOL	WATER	350,000	50,000	300,000
10) CENTENNIAL	WATER	150,000	20,000	130,000
11) CLAREMONT/CATAWBA	WATER	250,000	50,000	200,000
12) HWY 70 EAST	WATER	150,000	10,000	140,000

Signed and Certified

12-17-92
Date

M D McKinnie City Manager
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

DEC 18 1992

Potential Economic Stimulate Projects
For

Town of Glen Alpine
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	Sewer	Constr. of collector lines	2,118,480	100,000	2,018,480
2)					
3)					
4)					
5)					
6)					
7)					
8)					
9)					
10)					
11)					
12)					

Signed and Certified

12-16-92
Date

L. Wayne Pollard
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

A. W. Huffman Jr.
Mayor

Glenn H. Clay
Mayor Pro Tem

Linda K. Story
Town Manager

TOWN OF GRANITE FALLS

P.O. DRAWER 10
GRANITE FALLS, NORTH CAROLINA 28630
Phone (704) 396-3131 • Fax (704) 396-3133

Council Members
Jack R. Clark
Barry Hayes
Donald Kirkpatrick
Frank S. Mackie
Max V. McRary

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	NAME OF PROJECT	TYPE	TOTAL PROJECT COST	AMT. OF LOCAL $ AVAILABLE	GRANT AMOUNT NEEDED
1.	Falls Avenue Water Line Replacement	Water	$275,000	$25,000	$250,000
2.	Highway 321 Sewer Improvements	Sewer	$300,000	$25,000	$275,000
3.	Water Treatment Plant Finished Water Pumping Sta.	Water	$250,000	$25,000	$225,000
4.	Wastewater Treatment Plant Sludge Handling	Sewer	$500,000	$25,000	$475,000
			$1,325,000	$100,000	$1,225,000

Linda K. Story
Name and Title

Date 12/21/92

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To Bobby White	From Linda Story
Co.	Co.
Dept.	Phone #
Fax #	Fax #

Potential Economic Stimulate Projects
For

City of Hickory
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	Robinson Road	Water	$615,725	.00	$615,725.00
2)	Hickory/Lincolnton	Water	335,000	.00	335,000.00
3)	Country Club	Water	485,000	.00	485,000.00
4)	Propst Cross Rds.	Water	285,000	.00	285,000.00
5)	Banoak School	Water	400,000	.00	400,000.00
6)	Blackburn School	Water	245,000	.00	245,000.00
7)	Springs Rd. Highway 16		425,000	.00	425,000.00
8)	Henry Fork Sewer Plant	Sewer	15,000,000		15,000,000.00
9)					
10)					
11)					
12)					

Signed and Certified

12/17/92
Date

Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

DEC 17 1992

Potential Economic Stimulate Projects
For

Town of Long View
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	Airport Rhodhiss Water Line	Water	$500,000	$100,000	$400,000
2)	Water Plant Upgrade	Water Plant	$1,000,000	$200,000	$800,000
3)	Alum Sludge Waste Line	Sewer	$400,000	$80,000	$320,000
4)	Meadowbrook Sewer System	Sewer	$800,000	$160,000	$640,000
5)	Inflow & Infiltration Sewer Rehab Work	Sewer	$1,100,000	$100,000	$1,000,000
6)					
7)					
8)					
9)					
10)					
11)					
12)					

Signed and Certified

December 15, 1992
Date

E. Bruce Moore Town Administrator
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

Potential Economic Stimulate Projects
For

Town of Maiden
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	W. Maiden Sw. Line Estension		417,000.	$104,000.	313,000.
2)	W. Maiden Wa. Line Extension		900,000.		900,000.
3)	W. Maiden Elec. Extension		1,000,000.	250,000.	750,000.
4)	Sw. Extension to Modern McCreary Plant		90,000.		90,000.
5)	Reservoir at Water Plant		200,000.		200,000.
6)					
7)					
8)					
9)					
10)					
11)					
12)					

Signed and Certified

12/21/92
Date

Doris Bumgarner
Doris Bumgarner, Town Manager
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

Potential Economic Stimulate Projects
For

City of Morganton, North Carolina
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	Waste Water Treatment Plant	Sewer	$5,000,000	$2,500,000	$2,500,000
2)	City Hall Construction	General Purpose Government	3,400,000	400,000	3,000,000
3)	Elevated Water Tank and Mains	Water	2,600,000	600,000	2,000,000
4)	Finish Water Storage Tank	Water	1,300,000	450,000	850,000
5)	Water Distribution	Water	1,200,000	100,000	1,100,000
6)	Waste Water Plant Generator	Sewer	800,000	200,000	600,000
7)	Electric Substation	Electric	500,000	25,000	475,000
8)	Sludge Centrifuge	Sewer	500,000	100,000	400,000
9)	Catawba River Greenway Trail	Recreation	425,000	50,000	375,000
10)	Sidewalk Construction	General Purpose Govt	300,000	25,000	275,000
11)	Parking Lot		250,000	-0-	250,000
12)					

Signed and Certified

Date

Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

Potential Economic Stimulate Projects
For

Town of Valdez
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	Water plant Expansion	Water	5,000,000	1,000,000	4,000,000
2)	Sewer expansion	Sewer	4,000,000	500,000	3,500,000
3)	Park development	Recreation	1,500,000	500,000	1,000,000
4)					
5)					
6)					
7)					
8)					
9)					
10)					
11)					
12)					

Signed and Certified

12/17/92
Date

[signature]
Name and Title Town Mgr.

*water, sewer, roads, fire departments, general purpose government, recreation facilities

RURAL QUESTIONNAIRE

Please complete the "Rural Questionnaire" and return, by FAX, to (NACO) at (202) 393-2630 by *December 18th*. Please feel free to attach additional pages if extra space is necessary to answer any questions. *Thank you for taking the time to respond.*

Name of County Burke County City Morganton, NC 28655
State NC Zip 28655 Phone 704 433 4013 FAX 1-704-438-2782
Contact name for follow up Tom Robinson

1) What are your local governments' top three priorities?

1. Economic Development (Water + Sewer, roadways, site development)
2. Education (Technology Improvements, Restructuring, Flexibility, more rigorous education
3. Quality of Life Enhancement (Better Air + Water Quality, Crime Reduction, Day Care, Health Care,

2) Are you aware of any federal programs that address these priorities?
✓ Yes ____ No (but not much)
Are you or any local governments in your region receiving funding under any of these programs? ✓ Yes ____ No

If yes, please specify local government and programs (attach additional pages if necessary): Burke County, Town of Valdese, City of Morganton.

3) As a local official, what impediments have your governments faced in implementing federal programs effectively (other than the need for additional funding)?

Biggest problem has been lack of revenue, followed by lack of national stategy on dealing with major problems. No partnerships.

4) During the fiscal year, were any local governments in you region or county forced to reduce or postpone programs or services? If yes, please list specific programs/services for affected governments (attach additional pages if necessary). Yes, just a general cut back on County efforts to provide services in general. County and State are very fiscally sound and conservative. Therefore, we have probably managed better than most.

Over the past 12 months have you been forced to make reductions in programs and services? ___ Yes ✓ No If so please check those programs or services that have been reduced and list others not highlighted below.

- ___ public safety
- ___ corrections
- ___ judicial & legal
- ___ health/hospitals
- ___ public welfare
- ___ roads/transportation
- ___ education
- ___ other ___
- ___ solid waste management
- ___ community & Economic Development
- ___ housing
- ___ parks & recreation
- ___ libraries
- ___ capital projects

Were any governments forced to raise local taxes or institute new user fees or service charges? Please specify government and tax, fee, or charge (attach addition pages if necessary).

- ✓ user fees for selected services solid waste
- ✓ permits/license bldg inspection, EMS, health
- ✓ taps for water/sewer
- ✓ property taxes
- ___ other Burke County raised taxes 51% in three years

5) Has your county had to make employee reductions this past fiscal year? ___ Yes ✓ No
If so, how many employees ___, and what percent of your work force does this represent? ___ %

6) What holds the greatest potential for job creation in your region (attach additional pages if necessary)?

new manufacting industry

7) Is the availability of capital for job creation and/or infrastructure development a barrier to growth in your community? If so, what would help you remove those barriers (attach additional pages if necessary)?

yes - only so much can be done without federal or State help.

8) If you were to meet with President Clinton, what would you tell him rural America needs (attach additional pages if necessary)?

help solve health care problem, provide tort reform, help reduce paper work for welfare programs, help support day care, quit passing on federal mandates without funding.

What can rural governments do to help the country? (attach additional pages if necessary)? provide examples of successful programs,

"OFF-THE-SHELF" PROJECTS - INFRASTRUCTURE PROJECTS THAT COULD BE IMPLEMENTED WITHIN 90 DAYS

Please fill in the table below listing all infrastructure projects in your region that could be implemented within 90 days. Make copies of this page if necessary and use as many pages as you need.

Name of Government	Type of Project (brief description)	Cost of Project	Number of Jobs Created
~~Technology Infrastructure~~			
Burke County	Technology Improvements	$19,000,000	6
	in School System IE		
	Computers		
Burke County	16" Water Line – Plans	1,500,000	20
	approved No funding		
Town of Valdese	Industrial Site devel.	250,000	20
Burke County	Agricultural Services Bldg	600,000	15
	Improve School Recreation	2,500,000	12
	Icard Water Improvements	2,000,000	6
	Brentwood Water Improvements	1,000,000	4
Connelly Springs	Water Extension	250,000	4
Hildebran	Sewer Extension	750,000	6
Rutherford College	Sewer Extension	1,500,000	10
Longview	Sewer Extension	1,800,000	12
Morganton	Waste Water Plant Exp	16,000,000	30
	Water Plant Expansion	7,500,000	20
	Sidewalk Construction	500,000	5
	Greenway & River Access	600,000	6

DEC 28 1992

TOWN OF CATAWBA
P. O. Box 70 Phone 704/241-2215
CATAWBA, N. C. 28609

TOWN COUNCIL
Mayor
JOHN H. ELMORE, JR.

Commissioners
C. BENNETT GILBERT
TROY D. KORN
VANCE L. READLING
MITCHELL S. SETZER

TOWN OF CATAWBA N.C. INCORPORATED 1893

Clerk-Treasurer
DOLLY K. POPE

Town Administrator
MICHAEL E. GRANDSTAFF

Attorney
THOMAS W. WARLICK

December 23, 1992

Mr. Bobby White, Director
Community and Economic Development
Western Piedmont Council of Governments
317 First Avenue N.W.
Hickory, N.C. 28601

Subject: Potential Economic Stimulate Projects

Dear Bobby,

As per your request on Potential Economic Stimulate Projects for the Town of Catawba in which we could have under contract and construction within ninety (90) days are submitted herein.

If you need any additional information regarding any of these proposed projects, please do not hesitate to let me know and we will provide the information.

Thanks for keeping us informed and including our community in these proposals.

Here is wishing you and the WPCOG staff a very Merry Christmas and a Happy New Year!

Sincerely,

M. E. Grandstaff

M.E. Grandstaff,
Town Administrator

enclosure
pc: Mayor John H. Elmore, Jr.
Town Board of Commissioners
Attorney Thomas W. Warlick
Recil Wright, P.E.

Potential Economic Stimulate Projects
For

Town of Catawba, N. C.
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	Hunsucker Area	(water)	$63,000.00	$6,300.00	$56,700.00
2)	Edna & Mayble Sts.	(water)	$75,000.00	$7,500.00	$67,500.00
3)	Hot Rod Road	(water)	$32,000.00	$3,200.00	$28,800.00
4)	Hudson/Chapel to Bolton Road	(water)	$275,000.00	$27,500.00	$247,500.00
5)	Drumstead (Eumon St. Influent Sewer	(sewer)	$290,000.00	$29,000.00	$261,000.00
6)	Edna & Mayble St.	(Sewer)	$180,000.00	$18,000.00	$162,000.00
7)	Community Recreation Park	(recreation)	$64,600.00	(value in land) $32,300.00	$32,300.00
8)					
9)					
10)					
11)					
12)					

Signed and Certified

12-22-92
Date

Name and Title
Mayor

***water, sewer, roads, fire departments, general purpose government, recreation facilities**

Potential Economic Stimulate Projects
For

ALEXANDER COUNTY
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	16 South Water	Water	$250,000	$25,000	$225,000
2)	Sugar Loaf Water	Water	250,000	-0-	250,000
3)	Bethlehem Water	Water	800,000	-0-	800,000
4)	Water Interconnect	Water	500,000	50,000	450,000
5)	EMS Base	General Purpose	75,000	25,000	50,000
6)	90 East Sewer	Sewer	400,000	30,000	370,000
7)					
8)					
9)					
10)					
11)					
12)					

Signed and Certified

December 21, 1992
Date

Charles Mashburn County Administrator
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

DEC 30 1992

Potential Economic Stimulate Projects
For

TOWN OF CONNELLY SPRINGS
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	Israel Chapel Road Phase II - Self-Help	Water	$106,688.50	$ 53,344.25	$ 53,344.25
2)					
3)					
4)					
5)					
6)					
7)					
8)					
9)					
10)					
11)					
12)					

Signed and Certified

12-28-92
Date

Dennis Tomlinson - Mayor
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

DEC 31 1992

Potential Economic Stimulate Projects
For

TOWN OF HILDEBRAN
(Unit of Local Government)

PROJECTS THAT COULD BE UNDER CONSTRUCTION IN 90 DAYS

	Name of Project	*Type	Total Project Cost	Amount of Local $ Available	Grant Amount Needed
1)	RENOVATION OF MUNICIPAL COMPLEX	GEN/GOVT.	$147 000.	$80 000.	$67 000.
2)					
3)					
4)					
5)					
6)					
7)					
8)					
9)					
10)					
11)					
12)					

Signed and Certified

TOWN OF HILDEBRAN N.C. CORPORATE SEAL FIRST IN BURKE

DECEMBER 30, 1992
Date

Diane Lowman, Town Clerk
Name and Title

*water, sewer, roads, fire departments, general purpose government, recreation facilities

Mr. WISE. We are delighted to have joining us, and we appreciate your indulgence, the gentlewoman from Oregon, who we had the chance to discuss infrastructure and public works with a great deal with last week. We look forward to your testimony today, and I welcome you for any remarks you may wish to make.

TESTIMONY OF HON. ELIZABETH FURSE, A REPRESENTATIVE IN CONGRESS FROM OREGON

Ms. FURSE. Thank you, Mr. Chairman, and thank you for giving me this opportunity to testify. I will ask that all my written remarks be entered into the record and I will just speak from those.

Oregon is ready, willing and, most importantly, able to provide a national example of Federal, local and private cooperation in transportation and economic development. It is important and, in fact, vital to us that the Light Rail Project be completed before our transportation problems become untenable. One of things we have done in Oregon is a lot of preplanning.

Oregon has committed itself to building a light rail system in good time for our commuters and our communities. We have the land use planning in place, we have the local match dollars in place, we have the economic and environmental assessment. What we now need is the Federal commitment to be realized.

Section 3035(b) of ISTEA authorized $515 million for the construction of the Westside Light Rail Project, and this project is scheduled for completion in September of 1997. When finished, it will be a 33-mile alignment reaching east to west, with Portland as its center.

Last October, the Metropolitan Transit District and the Portland Region entered into a full funding agreement with the Federal Transit Authority, and this summer we will contract to construct the tunnel portion of the project. This portion of the project is expected to cost $150 million, and we will also acquire low floor light rail cars, which are expected to cost approximately $90 million. The low floor light rail cars will increase the cost of the project, but we believe that having them is important to this project, not only as state-of-the-art technology but also to help comply with transit provisions of the ADA.

In response to the incentives of ISTEA for expedited FTA review of projects in section 3011, the Portland Region developed an innovative finance plan that would limit the section 3 share of the project to one-third of the project cost. This would be approximately $66 million.

The local and State match monies would also fund one-third, and the remaining one-third would consist of $44 million in local- and State-allocated surface transportation funds.

The draft environmental study has been completed but has not yet been approved by the FTA. We need to advance the Hillsboro extension in a timely manner for the additional funding authority that is going to be necessary.

The thing about the Oregon Light Rail Project is that it will develop, and already has economic development along its corridors. It has been a spur to economic development as it is extended.

The Portland region's rail project is aggressive, however, past history demonstrates the region and the State of Oregon are pre-

pared to provide the funding and make the difficult choices to advance this agenda. The continued participation and support of Congress is essential in realizing the fulfillment of this vital program.

Thank you, Mr. Chairman.

Mr. WISE. I thank you very much and, as I say, we talked about this a good deal last week. The question I have is would—and there are really two proposals, I think, that are going to be taken: One would be called a short-term economic stimulus package; that is, projects that are ready to go; and a longer term one, which would probably involve full funding for ISTEA, and other projects.

The previous witness testified and suggested that the short-term package ought to apply only to projects for which the funding would complete that project that year. And I just wonder how you would feel about that and whether you would see this project being the one that you reference being part of a longer, the longer-term package?

Ms. FURSE. Well, because we have so much of this funding in place already, I would see this as being necessary to complete the project. Because we can begin the project. We don't have to wait for something to happen, except the commitment for it to happen.

It is a fairly short-term investment. We are not talking about 20 years. We have half of the project really done, the east side part, it is just the completion of the further part. So I would see us having the funding there for the entire project as we in Oregon have already put together considerable amount of the funding ourselves.

Mr. WISE. And under the present scenario, when would that project be completed on the present funding schedules?

Ms. FURSE. It is my understanding it will be completed in 1997. I do have with me someone from the Tri-Met. Yes, it is September 1997 that the project would be——

Mr. WISE. Is that the assumed, the present funding levels for ISTEA, or would it be possibly accelerated if there were full appropriation for ISTEA? Right now the Highway Act is—when it was authorized and what is being spent, there is a difference of $4 billion.

Ms. FURSE. I understand it would be with the full funding of ISTEA. If we got accelerated funding, we could complete the portion which goes to the city of Hillsboro, so that would also allow us to, with accelerated funding, to complete the entire project by 1997.

Mr. WISE. I see. I appreciate that very much, and I think that this is a very important project, and I know that you have been very concerned about it and advocating it strongly and accelerating the construction of it.

It seems to me something that certainly ought to be accelerated, both in the interest of short-term jobs and, more importantly, for long-term investment, and I will be glad to work with you on seeing that happen.

Ms. FURSE. Great. We do think we are really in a prime position to show this can be done with proper funding and with proper planning.

Mr. WISE. Thank you.

[Ms. Furse's prepared statement follows:]

TESTIMONY OF CONGRESSWOMAN ELIZABETH FURSE

HOUSE PUBLIC WORKS AND TRANSPORTATION COMMITTEE

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

February 3, 1993

Mr. Chairman, thank you for providing me the opportunity to appear today before the House Public Works and Transportation Subcommittee on Economic Development.

Oregon is ready, willing, and most importantly, able to provide a national example of federal, local and private cooperation in transportation and economic development. It is vital that light rail be completed before our transportation problems become untenable.

Oregon has committed itself to building a light rail system in good time for our commuters and our communities.

We have land use planning in place. We have the local match dollars in place. We have done the economic and environmental assessment. Now we need the federal commitment to be realized.

Section 3035(b) of ISTEA authorized $515 million for the construction of the Westside Light Rail Project. The finished project, scheduled for completion in September 1997 will be a 33 mile alignment reaching from east to west with Portland as the hub.

Last October the Tri-County Metropolitan Transit District of Oregon and the Portland region entered into a Full Funding Grant Agreement (FFGA) with the Federal Transit Administration for the Westside project. This summer, contracts to construct the tunnel portion of the project, which is expected to cost approximately $150 million, and to acquire low floor light rail cars, which is expected to cost approximately $90 million, are expected to be let.

The low floor light rail cars are a recent addition to the project. The Portland region decided to move forward with the purchase of these vehicles in response to the Americans with Disabilities Act (ADA). These will be the first low floor light rail cars placed in revenue service in North America. While the vehicles are widely used in Europe, they must be adapted to meet U.S. crash-worthiness standards and to travel at higher speeds than in Europe.

The low floor light rail cars will increase the cost of the project beyond the $515 million authorized in ISTEA. An additional $35 million will be necessary to acquire the vehicles and modify the existing alignment to accommodate the cars. The Portland region decided to acquire the low floor cars, rather than purchase more of the existing vehicles and construct additional wayside wheelchair lifts, based on a thorough review of low floor car technology and a conviction, arrived at after extensive citizen participation, that these vehicles would provide enhanced access over the existing vehicles.

The scope of the Westside Project was also reduced from $565 million in section 3 funds to $515 million as a result of the authorization level. This necessitated the deferral or elimination of $37 million in project elements. Among the project elements affected are two stations, downsizing of park and ride lots, grade crossing and some communications capability. Restoration of these project elements through additional authorization would ensure that the project can accommodate expected ridership.

ISTEA also created a special category of transit projects known as "Programs of Interrelated Projects." The Westside Light Rail Project, including the extension to downtown Hillsboro, was included in this category. ISTEA authorized funding for the project only through the preliminary engineering stage.

In response to the incentives of ISTEA for expedited FTA review of projects in section 3011, the Portland region developed an innovative financing plan that would limit the section 3 share of the project to one-third of the project cost. This would be approximately $66 million. Local and state match monies would also fund one-third. The remaining one-third would consist of $44 million in local and state allocated Surface Transportation Program funds and $22 million in section 9 formula monies.

The Draft Environmental Impact Statement (DEIS) has been completed by the region but has not been approved by the

Federal Transit Administration (FTA). The benefits the Portland region hoped to attain by its innovative financing package have yet to materialize. Nonetheless, the region is committed to moving forward with this package and similar initiatives for future transit projects.

To advance the Hillsboro extension in a timely fashion additional funding authorization is going to be necessary. It is hoped that construction of the project can occur concurrently with the Westside project and begin in late 1994 or early 1995. The Committee's assistance in approving the use of these additional monies is critical to this project going forward.

The Portland region's rail program is aggressive. However, past history demonstrates that the region and the state of Oregon are prepared to provide the funding and make the difficult choices to advance that agenda. The continued participation and support of Congress is essential to realizing the fulfillment of this program.

Mr. WISE. I am happy now to turn to the gentleman from Kentucky. We just had one of your colleagues, Mr. Mazzoli, testify, but I want you to know that I looked down here and I just refused to let all the economic stimulus go to Ron's district, as able a person as he is. Of course, Ron Mazzoli, he would want to share anything anyhow.

So we welcome you and look forward to your statement.

TESTIMONY OF HON. SCOTTY BAESLER, A REPRESENTATIVE IN CONGRESS FROM KENTUCKY

Mr. BAESLER. Thank you, Mr. Chairman. My statement will be a little different because I am taking this opportunity to suggest an approach, or at least give you my ideas on an approach rather than on specific projects, and I am going to skip some of my statement because I know you have been here a long time.

Mr. WISE. We are in good shape. We just had a recess.

Mr. BAESLER. Oh, great. Generally, what I am getting at is, I think the local communities and the States should have more say in what we do with the money. Specifically, if there is an allocation of money for public works, I am of the opinion we should involve the States in determining, or in the particular local communities, in how they want to use it. So I will go through my statement and keep it in order since there is no time problem.

The national goals of the economic recovery can best be met by creative projects in States, cities and counties. It will not only require increases in Federal funding but also the freedom for local officials to channel these dollars into creative locally identified projects.

Local officials and State officials are closest to the problems and, thus, more able to identify the local solutions. However, as a Nation, we continue to channel vital assistance through specific categorical type grants. Local officials are then required to force their local round peg problems or ideas into square holes of Federal answers and programs. We do not serve the public by this method. Implementing national goals for economic recovery will require establishing trust between and adequate levels of support for all levels of government.

The reasons for increased national public investment in infrastructure and economic development and capital programs at the local level:

One. Creates jobs in areas which need them most and reduces the drain on other areas of the Federal budget. It is far less expensive to employ, build projects and create opportunities for individuals than it is to compensate them for being idle.

Every capital project financed by public dollars can typically be structured to encourage spinoffs in private investment within a community. As a result, tax bases and receipts are increased and additional services can be provided.

Many communities lack sufficient revenues from their own sources to now meet their share of the Federal program costs, grant matches or loan responsibilities. Local economies lag behind the national economy. As such, local infrastructure investment can take place only when the economy as a whole is healthy. If the goal is to stimulate, then activity must take place at the local level with

increased funds and with criteria designed to move the dollars quickly.

Kentucky communities have a variety of needs for infrastructure funding of roads, utilities and community facilities. These needs far outstrip any available resources. For example: Kentucky currently, as a State, receives $33.5 million a year in community development block grants. These grants, which flow to the State government, are allocated for projects involving housing and so forth. The Farmers Home Administration is, as you well know, a key source of funds for Kentucky communities, as well as the Appalachian Regional Commission. At least six of my counties have these funds.

Within my district, there are over $13 million in economic development infrastructure needs being developed. These are primarily for utilities and roads to serve newly acquired or expand industrial parks. Other water and wastewater needs in the 6th District total over $102 million.

What is most significant about the examples such as these are not that they exist and that there is not enough funds to cover them all, but rather the elaborate process local communities and the leaders must go through in meeting their basic needs.

Most local projects can significantly increase in cost due to the very time-consuming process of blending dollars from a variety of sources. A typical infrastructure or economic development project in Kentucky requires numerous grants to CDBG, Appalachian Regional Commission, Farmers Home, Environmental Protection Agency, and various loans through private sources or public infrastructure bond banks. The administrative overhead on these limited projects is considerable.

These various grant/loan programs do not change a particular project the local leader seeks to complete, but rather change which funding sources he or she utilizes. The fact that each funding source has a separate eligibility and criteria makes for a very complex and confusing project, which is oftentimes difficult to explain to the public.

My recommendations and alternatives: There exists a strong rationale for increased funding and greater local flexibility in Federal grants and loan programs. This is particularly true in economic development and/or basic infrastructure projects. The goals should be to quickly move these projects forward in an effort to stimulate the economy and create needed jobs.

In Kentucky, we have, as already listed, numerous projects ready to go, but held back on the slow track of having to meet detailed criteria from a variety of funding sources.

I recommend the following: One, obviously, is to increase funding for local capital projects which we are talking about.

Two. The creation of a one-stop distribution center for those funds. The center of the agency should be designed so as to be able to fund a variety of capital projects and needs. One agency overseeing the funds and capable of funding different types of projects will prevent multiple local applications to a host of different agencies, each with their own criteria and schedule for review.

Three. Establishment of a fairer and more equitable distribution of these funds whereby all communities can benefit. Criteria should

be simple and allocate available funds on a basic formula basis using such factors as population, per capita income, local tax efforts, urbanized population, and another I might throw in that is not in the written statement, and what potential job creation will each project bear.

It was a simple formula such as this which made general revenue sharing so popular with and effective in local communities. While the financial ability of the Federal Government to share has been reduced, the concept of allocation fairness bears review and consideration if an economic stimulus package involving infrastructure improvements is recommended.

A justification for this approach: Increased funding combined with a simple fair allocation of dollars based on criteria already mentioned, such as population, income, local tax efforts, and so forth, or any other things you might want to put in to assure the money is going to create jobs, would easily be justified.

The ease of administration, number one. Two, its speed. And we are talking here about if you don't have a job creation, if you have to wait four or five years to get it. Three allows local officials closest to the needs and the problems of the citizens, whether it is a train rail or whether it is storm water, or whatever it might be, let the local communities get involved. And that, in itself, would encourage local communities to come up with some of their own money if they had it.

Continue to create movement and leadership of States and communities which developed during the 1980s and 1990s whereby new innovative programs and projects were developed at these levels of government.

Allow local communities to meet their economic development or infrastructure needs without the need to shortchange other basic local services.

Thank you, Mr. Chairman. Those are just my comments on the approach.

Mr. WISE. I appreciate it, and I would really like to expand on that a little bit because of your past experience, as I recall, as a mayor, and your dealing directly with this at the local level.

My feeling is much the same as yours; that you have a myriad of agencies that could be involved in this. We were talking a little earlier, but I made a list running from Farmers Home, RDA, HUD, Department of Transportation, EPA, Clean Water, EDA, ARC.

If you could comment—if you could put your former hat on for a second and comment from the mayor's standpoint. I suspect if you suddenly saw in the paper that there is an economic stimulus package that you could make application for projects ready to go in 90 days, but you have to sort through the maze and figure out what you want and target it to each of those agencies—is that a difficult process?

Mr. BAESLER. Very difficult, because each one will have different qualifications. CDBG, you have to be at certain income levels; or the ARC—in my district I have six counties that have ARC and the other 12 do not have ARC funding.

If you would tell us, tell local government, okay, you have this $34 million, you have this amount of time to get it together and come back with a proposal, and you have to create this many jobs,

boom, boom, boom, get it together, the first thing they would do is get their own people together and say what are our priorities. The next thing they will do is go to the State and say, State, we have X amount of dollars, how much can you throw in if we can do X, Y, and Z.

Within 90 days, the local government comes to the Federal Government and says here is what we can do; how fast can we do it? This is how many jobs we will have, and, basically, here is what we are going to put up, or what we need. And that way, then, let that institution, that entity, if it has to distribute or bring it from different agencies, let them do it. Because local governments will not be able to respond in a year's time if we have to go through eight or 10 agencies, and we will not do the big project but a little here and a little there.

Mr. WISE. You hit on the main concern I have. In 1976 and 1977, in the Local Partnership Act, or local public works bill, the Economic Development Administration was designated the central agency. And, effectively, what you just outlined was the process. There were certain broad guidelines you met when you applied to EDA and they allocated the money to the State or cities. And assuming you met those guidelines, that is how it came as opposed to you applying to all the different agencies.

Does that sound workable to you?

Mr. BAESLER. Workable. It would be workable. Because during that program, what you were talking about earlier, we also had revenue-sharing come at the same time and we lost it about 1985 or 1986. So it would be workable.

I think what has to be clear to everybody is that you have got a responsibility to create jobs if we give you the money, number one. Don't bring us a project that doesn't create any jobs. Number two, is that we are ready to move; you have to be ready to move. We do not have planning time for six months. Everybody has got those kinds of projects.

And, number three, we will look at you a little better if you have some local money and State money with you. There will be certain criteria. Because you are going to leverage—this $30 billion can be leveraged into $150 billion, in some instances, if you use local communities. You do not want to make communities who do not compete with those who do, so you have to break it, like we used to do in UDAG grants, where you had a certain group with 10 percent and another group with different qualifications.

So we don't want to make them compete against each other, but they should be separate pots, and that way we can leverage the $30 billion, I think, into hundreds of billions of dollars if we leave a lot of the initiative up to the State and local governments. Because they know what they need and they know where they can get their support. Might be private sector or public or wherever.

So I think that is what we need to do. Otherwise, we spend $30 billion and not get anything other than $30 billion. We will get 150 if we leverage it.

Mr. WISE. But, as you point out, if we are talking about getting money out quickly, where it will do the most good, if you make every municipality apply to every agency, it is going to be a year before you——

Mr. BAESLER. We are all going to be here next year saying we want to create jobs.

Mr. WISE. I know when you were mayor you represented a larger urban area, but I can tell you, West Virginia, with the exception of a couple of municipalities, we don't have full time grant writers on staff that can be tracking that all the time.

Mr. BAESLER. No. Our objective is to get the money out. We have to make it simple and easy for most of the country, and they will come with good projects and they will come together if they know they have to do that.

Mr. WISE. I appreciate that very much. You have all given some insightful testimony.

Let me ask Ms. Molinari if she had any questions.

Ms. MOLINARI. No, thank you.

Mr. WISE. We are happy to recognize now the gentleman from Pennsylvania, Mr. Santorum. We have been hearing testimony on the role of infrastructure and short- and long-term investment and we look forward to your remarks.

TESTIMONY OF HON. RICK SANTORUM, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA, AND HON. CHRISTOPHER SHAYS, A REPRESENTATIVE IN CONGRESS FROM CONNECTICUT

Mr. SANTORUM. I appreciate the promptness by which you get called in this committee.

Mr. WISE. You move this place.

Mr. SANTORUM. This is my second term, and you usually have to wait around for an hour or two while everybody drones on. I will try not to drone on and will submit a full statement for the record.

The reason I am here is to do what the gentleman was just commenting on, how we can accelerate infrastructure spending. Obviously, it is something the new administration wants to do and I am very supportive of.

The question is how are we going to do it without raising taxes, cutting spending, violating the Budget Act, and a whole host of other things that are parameters which may be put upon this committee.

I have been working with a gentleman, Scott Reznick, sitting behind me, who is not a constituent but from Pennsylvania. Particularly, we have been working on ideas having to do with securitization, and we have submitted copies of a report which will be made available to you. We have already submitted a copy of the report to the Chairman and members of the full committee.

We have also—since Ways and Means, of which I am a new member, also has jurisdiction over this area—submitted copies to Mr. Rostenkowski and Mr. Archer for their perusal. But we think this is an opportunity for us to do all the things I just said; meet with the budget agreement, not raise taxes but yet accelerate infrastructure spending by using securitization of a stream of funding that is predictable and anticipated over the next five years; to take that money, basically, borrow against it, use it as a credit enhancement to then fund departments of transportation agencies fully in the first year so they can then plan a five-year expenditure over that time but have the money in year one.

It is an innovative way of going about it. I think it is something to look into in this committee. I hope we on the Ways and Means Committee look into, and maybe with the joint jurisdiction even have some sort of hearings to look into this. I think it is an idea that serves the time well because we are under very tight budget constraints, and yet it is an opportunity for us to accelerate spending without impacting the budget agreement.

And I will stop right there.

Mr. WISE. Thank you very much. If you could stay just a minute. We are delighted to also have joining us the gentleman from Connecticut, Mr. Shays.

Chris and I worked last year, along with Ron Machtley, in putting together a formula for the Local Partnership Act, which Chris, it is my understanding, that that bill if it has not been reintroduced today, it is being reintroduced and, basically, carries that formula that we worked on. So that, hopefully, will be the vehicle for discussion of any kind of allocation formula.

I certainly appreciated the chance to work with you last year as we tried to perfect that and make sure the limited amounts of dollars got to the people who needed them.

Happily, I turn to Mr. Shays for any statement he may wish to make.

Mr. SHAYS. Thank you, Chairman Wise, and Representative Molinari. It is very nice for me to be here. Let me say I was very grateful to have been able to work with you Mr. Wise. I joined the Government Operations Committee on a revenue-sharing bill that in fact would have been targeted to more needy areas.

I am here because I think the work you are doing in regard to an economic stimulus package is essential, and I am here to make an argument for two areas. I just came back from a Budget hearing where Dr. Reischauer was making it very clear that the deficit is an enemy to the future growth of our country. It is affecting savings and investment in a significant way. And our future productivity is suffering as a result of it.

So I asked him, "Is the deficit more important than the stimulus package?" He replied, "Well, clearly the deficit is more important, but if you are going to do a stimulus package and may want to because we are still not sure we are getting out of this recession as quickly as we need to, make sure that you focus in on what is truly investment. Don't just stimulate the economy without having there be some future payback."

And I am here to make the argument in as strong a way as I possibly can that you must focus in on the need of the urban areas, you must help rebuild our urban areas, and you must focus in on the environmental concerns that we have.

Let me just address first the needs of our urban areas. Our cities are dying, and candidly, both parties have forgotten our cities. I don't see how you move this country forward economically if you leave our cities behind.

What we need to do is bring businesses back into urban areas to create jobs and to pay taxes. And to me one of the best ways to do that besides enterprise zones that would truly attract manufacturing is for an economic development block grant to be applied to our urban areas.

I know, Mr. Chairman, you basically have one city that would be impacted by this legislation, and I want to acknowledge that. But I am focused in on 645 of the most needy urban areas around the country. And I think you have a chart that would show what $5 billion would do for these areas.

For instance, New York City would get—Representative Molinari—half a billion dollars of money for development of its infrastructure. Bridgeport, Connecticut would get about $12 million. And of that $12 million, we would rebuild our harbor, we would build a road to an industrial park that is more than 400 acres that is now fallow, and needs to be cleaned up. We would attract businesses back to our areas to do the things we talk about, paying taxes and creating jobs, making cities economically independent, not making them dependent on a fund that could conceivably be eaten up by its employees, but bringing in taxpayers coming back in because the infrastructure in our cities will be rebuilt.

So I hope you would look at our economic block development grant program. It is modeled after the Community Development Block Grant program, but it focuses on cities of greater need, and in addition, the money would be spent on infrastructure issues, public works issues, roads, bridges, harbors, sewage treatment plants.

And that gets me to the second point. The Federal Government was in the sewage treatment plant business and got out of it. The Federal Government, the States and local communities spent about $52 billion and operated sewage treatment plants. And now we just have a revolving fund with very little money in it.

We have, it is estimated, $50 billion more to upgrade our sewage treatment plants, of which our major cities have a tremendous need. We are polluting our environment, we are destroying our environment. The payback of cleanup of these sewage treatment plants would obviously have economic stimulus.

Public works is American jobs and American materials. We had the tax law of 1986. We encouraged consumption, discouraged investment, and the Japanese, the Europeans were delighted because all their consumer goods were bought by Americans who had a little more money to spend on consumer issues.

I am delighted you are looking at investment programs and public works. I am making a strong argument they should be focused on urban areas that need help and maybe a companion package for rural areas that need it, but make sure we are not putting money into suburban areas that don't have the same kind of need.

I am also making a strong plea that you are encouraging our government to get back into the sewage treatment plant business.

Thank you very much.

Mr. WISE. You make very excellent points. The sewage treatment plant business is crucial, particularly with the Clean Water Act scheduled to expire in 1994, and that would be the demise of the State revolving fund. And the job clearly is not done.

I think the figures you were citing were EPA figures of the estimated need. I have seen some figures that run as high as between $110 and $140 billion. And particularly as the Federal Government imposes more environmental mandates—and it is a new program,

I call it, mandates without money—and poses a mandate and says, you fellows try and figure it out.

Your formula, your concept I think is excellent, and particularly the points that we were working on last year, which was to make sure that we got something tangible out of it after the job was created, that there was some capital investment.

We can negotiate over formulas and allocations—I probably need to do that with you a little bit on this one—but certainly the concept is sound, and the goal that all of us had then and which I think most of us have now which is not to simply create a job for the purpose of that, to create a job that builds something and leaves something in place that pays back long after that original construction job may be gone. And hopefully, as you pointed out, the road to an industrial park actually leads to the creation of new jobs that are in existence for a long time.

Mr. SHAYS. Bridgeport at one time was a port city. This is a city, you may remember, that requested to go bankrupt and the courts denied it. But it is essentially close to bankruptcy, and struggling hard to get out of it.

We have a harbor that is basically dormant. We need to build docks, we need to build warehousing. We have a 400-acre property in Bridgeport that used to be Remington Arms, where we tested many of the munitions in World War II. Bridgeport provided 25 percent of all munitions in World War II. It was a thriving city, and now it just continues to decline.

So we would clean up that park; we would fence it in, have a road to it, have a harbor, and we would be able to attract jobs in a big way. What a wonderful way to spend dollars, to encourage that kind of investment.

Mr. WISE. Ms. Molinari.

Ms. MOLINARI. Thank you.

I would like to thank both of my Republican colleagues for showing this committee that those of us on the other side of the aisle share equal enthusiasm for repairing our Nation's infrastructure and also getting our job growth back on track.

Chris, you and I have discussed your proposal, and I think it has got a lot of great potential. I do indeed want to discuss it more closely with you.

Rick, your strategy is interesting because, as you may or may not know, as part of ISTEA, we authorized a commission to deal with funding strategies, and the Infrastructure Investment Commission came out with an interim report in December and came to many of the same conclusions that you put forth. They have proposed the creation of a National Infrastructure Corporation.

So there are in fact some commonalities; there are some strong conflicts. What I would like to do is afterwards, if we can utilize both the resources of your office and Mr. Resnick, to have both of you review this report with us to see how we can bring these conflicts into compliance and perhaps offer this as a funding mechanism and really come up with the best of both worlds relative to not impacting the deficit, not increasing taxes and spurring job growth.

It seems almost too good to be true, yet if this commission authorized by Congress last year is coming to much the same conclu-

sions that you come to, I think it may in fact be worth pursuing. So I would like to work with both of you on that.

Mr. WISE. And let me also say, Mr. Santorum, you are going to be involved I think on Ways and Means Committee, an extremely important, as Ms. Molinari points out, an extremely important area of financing, because it is one thing to have direct public investment, it is something else we encourage, as private investment that has also been lacking in our infrastructure.

Whether it is the findings of the infrastructure commission or some of the other initiatives, for instance, is there a way that you can take certain Federal dollars and leverage those in certain types of issuances so that you could get money out quickly?

Mr. SANTORUM. That is basically what we are trying to do.

Mr. WISE. There are a number of proposals out there. That is what you are trying to do, as I quickly scanned yours. So one thing I think that Ways and Means—one of the things I would suggest is going back and looking at what was done in the 1986 Tax Act which restricted the ability to issue certain types of securities and particularly those that went to the construction of water and sewer facilities. There was a limitation and caps placed on there that I think need to be looked at. It seemed to be such a good idea at the time, but it apparently choked off the construction that needed to take place.

I am delighted to have your energy and enthusiasm on Ways and Means. We look forward to working with both of you.

[The prepared statements of Representatives Santorum and Shays follow:]

RICK SANTORUM
18TH DISTRICT PENNSYLVANIA

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TASK FORCE ON COMMUNITY DEVELOPMENT
COMMITTEE ON VETERANS' AFFAIRS
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U.S. REP. RICK SANTORUM
of Pennsylvania
before the Subcommittee on Economic Development
Committee on Public Works & Transportation

"Investing in America's Infrastructure:
Short and Long-Term Strategies"
February 3, 1993

Mr. Chairman, Ms. Molinari, and members of the Subcommittee, I appreciate the opportunity to speak with you today about the short and long-term opportunities for investment in infrastructure. I am grateful that you have initiated these hearings not only at a time of increased need for infrastructure development in our communities, but also at a time of increased opportunity. The Clinton Administration's early commitment to increased spending on highways and mass transit projects makes these hearings and the ideas presented all the more important.

Financing the additional $30 billion in annual infrastructure investment President Clinton is proposing, however, will be a tremendous challenge. The realities of the budget deficit already have us re-examining our funding priorities and investment strategies one year after passage of the landmark ISTEA (Intermodal Surface Transportation Efficiency Act) legislation. While the ISTEA blueprint will pioneer our transportation programs addressing the changing needs for America's future, we find ourselves in a situation where there is a funding shortfall in what is actually going to be spent. Recent statements by Chairman Mineta and Mr. Shuster are testament to this committee's commitment to full funding for the highway bill. I also share in that commitment.

My purpose in testifying today is to make you aware of additional financial options that also may be used to increase private investment in infrastructure. The enclosed policy memorandum, prepared by Scott Reznick at Commonwealth Development Associates (CDA), describes a Secondary Market Financing Program for the Department of Transportation (DOT). The program could provide up to $60 billion in new tax exempt, credit enhanced capital to state and local governments for transportation projects, as well as an additional $20 billion in taxable, guaranteed funding. The entire program could be implemented without increasing the deficit, raising taxes, cutting spending,

increasing federal liabilities, or violating the 1990 Budget Enforcement Act.

Scott and I have known each other on a personal friendship basis for some time, and it is a pleasure for me to work with him in presenting this proposal. CDA has been developing the DOT Secondary Market Financing Program with the Federal Transit Administration's (FTA) Office of Budget and Policy since the fall of 1991. The proposal has more recently been presented on a staff level to the Ways and Means Committee, the Budget Committee, the Transportation Appropriations Subcommittee, and your Subcommittee today. My intentions today are to simply share the proposal with you for initial consideration. I would like to offer you and the staff a more detailed and complete presentation of the proposal. As you prepare for public and private testimony in the future, I look forward to Scott having the opportunity to speak with you as well.

As I continue to work through the proposal with these jurisdictions, I appreciate the opportunity to share it with you directly today. I look forward to your comments.

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THE DOT SECONDARY MARKET FINANCING PROGRAM

Investing $80 Billion in Private Capital to Rebuild America

November 24, 1992

President-elect Clinton has called for an additional annual $20 billion investment in infrastructure to stimulate our economy and improve America's long-term productivity and competitiveness.

The DOT Secondary Market Financing Program will help the Clinton Administration achieve these goals by funding up to $80 billion in new transportation infrastructure--*without increasing the deficit, raising taxes, cutting spending, or violating the budget enforcement agreement.*

The Secondary Market Financing Program will channel private American and foreign capital, backed by authorized DOT grants and existing loans, into state and local infrastructure projects at the most cost effective interest rates. It could, for example, fund the eligible transportation projects listed by the U.S. Conference of Mayors.

The Program adapts securitization, an evolving financial technology first proven in the market for residential mortgages, to public works investment:

- DOT Secondary Market Securities will reduce interest costs for infrastructure development and repair by pooling state, local and private sector loans into securities attractive to institutional investors.

- Three innovative forms of DOT credit enhancement will be made available to infrastructure borrowers: Grant-Backed Securities, Portfolio-Funded Guarantees and Structured Privatization. These credit enhancements will further reduce interest costs and need not increase Federal liabilities.

The Program may be administered by a government sponsored enterprise or through contracts with commercial and investment bankers. Program costs may be paid with transaction fees.

The financial community is interested in arranging and placing DOT Secondary Market Securities.

Federal and, possibly, state legislation will be needed to fully implement the Program.

The DOT Secondary Market Financing Program will make as much as $80 billion in accelerated, low cost, private funding available to Rebuild America--*without increasing the deficit.*

SECURITIZATION

Securitization is a financial process for structuring pools of illiquid loans into securities purchased and traded in a global market by pension funds, banks, insurance companies, mutual funds, corporate treasuries and individuals.

In a securitized transaction, originating lenders sell their loans to a trust. The trust funds the loan purchase by selling securities to investors. Borrowers continue to make their payments of principal and interest to the originating lender. These payments are then passed to and through the trust to the securities investors. The flow of funds can be structured, and credit enhanced, at the trust level, reducing risks to investors and interest costs to borrowers.

Also called structured finance, securitization has developed into a flexible, adaptive and widely accepted financial technology. Securitized debt offerings selectively integrate cash flows and public-private credit enhancement into "tranches" targeted on specific investor needs. They standardize and pool loans to make investor risk statistically predictable. Securitized offerings also have the size and credit quality to appeal to large global institutions.

Securitization was first used in 1970 by GNMA to increase the flow of investment into residential mortgages. There are currently $1.24 trillion in mortgage-backed securities outstanding, financing 31% of all residential and commercial mortgages. Securitization has brought liquidity and greater efficiency and equity to the capital markets for real estate investment. Securitization has resulted in a 25 to 50 basis point reduction in interest costs to homeowners.

Since the mid-1980s, securitization has been applied to an ever wider array of public assets. Federally sponsored securitization is increasing investment in small businesses, farms, cities and students. To reduce the deficit, the Federal Government securitized and sold $7.3 billion in direct loans in 1987. The Resolution Trust Corporation is selling Federally guaranteed asset-backed securities to more quickly reduce its inventory of failed S&Ls assets.

Private asset-backed securities, issued by banks and other financial institutions, have pooled conventional residential and commercial mortgages, car loans, credit card, lease and other receivables. Banks use securitization to manage their assets and liabilities, generate new capital for new loans, and increase their fee and interest incomes. The market for asset-backed securities has grown from $500 million in 1980 to $180 billion in new offerings in 1990. Standard & Poor's predicts that by the turn of the century, 80% of all new loans will be securitized.

Applied to transportation finance through DOT's Secondary Market Financing Program, securitization will redirect the flow of global capital into investment in American infrastructure, increasing capital availability and providing best rate, investment grade financing to state and local transportation agencies, even those with weaker bond ratings.

DOT's SECONDARY MARKET FINANCING PROGRAM

The rating agencies and investors have established criteria for securitized transactions. State, local and private sector transportation loans pooled into securities under the Secondary Market Financing Program will have to meet these standards to assure best rate financing.

The essence of a securitized transaction is a consistent, predictable cash flow that assures investors of timely repayment. Borrowers should be geographically dispersed. Loan documents should be relatively standardized. Loan origination and servicing policies and systems should be commercially acceptable. Loan portfolios should be of sufficient size to permit rating agency risk modeling and attract large institutional investors.

The DOT Secondary Market Financing Program can use three forms of credit enhancement to make additional, lower cost capital available for infrastructure investment:

Grant-Backed Securities: DOT formula grants, authorized by the Intermodal Surface Transportation Efficiency Act of 1990 (ISTEA), are a consistent, predictable cash flow suitable for securitization. Formula grants administered by the Federal Highway, Transit, Aviation, Railroad and Maritime Administrations could be used to create DOT Grant-Backed Securities to support accelerated, best rate investment in transportation infrastructure.

Up to $60 billion in accelerated transportation infrastructure development and repair projects could be funded with DOT Grant-Backed Securities.

Grant-Backed Securities will enable DOT grantees to use their five remaining years of ISTEA-authorized formula grants to secure loans for current infrastructure development and repair projects. The lender takes a pledge of future formula grants as security for its loan. It makes the loan to a state or local transportation agency, but is repaid with DOT formula grant payments. Loan pooling will further reduce risk and interest costs.

Because Grant-Backed Securities are not guaranteed by DOT or the United States, investors bear the risks of nonappropriation, noncompliance and bankruptcy. Annual Congressional appropriations do not ordinarily meet authorization levels. Grantees in noncompliance may lose program eligibility and suffer partial or total loss of future grant payments. Bankruptcy risk, present in any municipal financing, may also arise. These risks may be ameliorated through securitization risk analysis and structuring.

Because DOT Grant-Backed Securities do not carry a Federal guarantee, they should be, as a form of municipal bond, tax exempt under Section 149 of the Internal Revenue Code. A ruling by the Internal Revenue Service should be sought to confirm their tax exempt status. They may then be priced at up to 50 basis points below comparable tax exempt municipal debt.

The "subsidy cost" accounted for in DOT's fiscal year budget for Grant-Backed Securities under *OMB Circular A-70* and the *Credit Reform Act of 1990* should be zero. Confirmation of this budget treatment should be sought from the Office of Management and Budget.

In the technology of securitization, Grant-Backed Securities are a cash flow structure. Loan repayments, funded with predictable DOT grant receipts, will flow from the borrower to a trust and then to investors in the trust's securities. Credit enhancement--not a guarantee but, rather, the consistency of DOT grant payments--assures investors of timely repayment.

Portfolio-Funded Guarantees: Through structured finance, DOT can add other forms of credit enhancement to public and private investment in transportation infrastructure. DOT risk absorption can increase private capital leverage in transportation investments and reduce interest costs to borrowers. In a securitized financing, DOT could also receive a cash return on its risk-bearing investment in credit enhancement.

Traditional Federal government loan guarantees may be utilized. These guarantees could be funded through appropriations and/or a line of credit issued by the Treasury Department. They could also be funded through the securitization and sale of the approximately $3 billion portfolio of outstanding DOT loans. The proceeds of this loan sale would provide the initial capital needed to fund reserves to support DOT loan guarantees. Additional funding for guarantee reserves could be generated through transaction fees.

Up to $20 billion in new infrastructure financing could be guaranteed with such a portfolio-funded reserve.

Treasury Department and OMB regulations as well as the mandates of the *Credit Reform Act of 1990* will need to be met, or revised, to sell the existing DOT loan portfolios and use the sale proceeds to capitalize loan guarantee reserve funds.

Under Section 149 of the Internal Revenue Code, as currently enacted, Federally guaranteed state and local infrastructure loans would not be tax exempt. They may be priced at up to 50 basis points below comparable taxable debt.

Structured Privatization: ISTEA Sections 1012 and 3019 and Executive Order 12803 encourage the use of private financing, tolls and other user charges to fund the development and repair of infrastructure. The FTA Office of Budget and Policy has asked Commonwealth Development Associates (CDA), through the Volpe National Transportation Systems Center, to undertake an analysis of the credit enhancement opportunities for private infrastructure investment offered DOT through structured finance. CDA's report should be completed in the next two months.

PROGRAM ADMINISTRATION

There are two ways to administer the DOT Secondary Market Financing Program:

- by creating a government sponsored enterprise (GSE), Dottie Fae, or
- by contract with private sector lenders and investment bankers.

The Secondary Market Financing Program may be administered through a government sponsored enterprise, Dottie Fae, created and operated like Fannie Mae or Farmer Mac, i.e., as a quasi-public organization subject to Federal (DOT) regulation and able to draw upon the U.S. Treasury for credit support. Dottie Fae would be subject to the same budgetary, audit and disclosure requirements as other GSEs. It would rely on investment bankers to place its securities with investors. Legislation, and negotiations with OMB, would be required before Dottie Fae could be created. Dottie Fae would cost approximately $20 million to organize. Its capitalization could come from appropriations, the sale of existing DOT loans, as described above, and/or the (mandated) sale of equity to loan originators, investment bankers and others who work with Dottie Fae. The costs of administering Dottie Fae could be defrayed through transaction fees.

The Secondary Market Financing Program also may be administered through contracts with private financial institutions. The HUD 108 Grant-Backed Securities Program is administered in this manner. A small staff at DOT would consolidate existing DOT loans and guarantees; approve the use of DOT credit enhancement; act as a departmental clearinghouse for loan, credit enhancement and grant standardization; and enter into contracts with lenders and investment bankers to establish a loan origination and securitization pipeline to the asset-backed market for state, local and private transportation debt. This office would rely on existing contract authority for its operating procedures and would be subject to government procurement and public notice requirements. Its operating costs could be defrayed through a small transaction fee paid out of the spread between borrowers' costs and investors' yields.

Whether administered through Dottie Fae or by private financial institutions, the Secondary Market Financing Program may require a higher level of standardization in grant contracts than is currently required by DOT. The terms and conditions of the loans pooled into securities would also need to show a relatively high level of consistency to meet rating agency and investor criteria for risk assessment.

Secondary Market Financing Program activities should not otherwise affect DOT grants management, although the volume of projects processed should increase in the early years of the Program.

PROGRAM IMPLEMENTATION

The Federal Transit Administration Office of Budget and Policy began research and development work on securitization in the Fall of 1991. Securitization was first discussed in the context of all DOT programs in 1992. It has been reviewed by the Transportation Policy Advisory Committee and the Modal Administrations and has progressed to the Office of the DOT Deputy Secretary as a position paper.

The DOT Secondary Market Program will require Congressional approval. The states will also need to review and, if necessary, amend their enabling legislation to assure their transportation agencies and private infrastructure developers of the legal authority to fully utilize the Program. Commonwealth Development Associates is also investigating state legislative requirements for securitized transactions under a Federal Transit Administration grant to the American Legislative Exchange Council.

CONCLUSION

Accelerated transportation infrastructure development and repair can be funded through the global capital market for asset-backed securities. Risk can be reduced and more effectively distributed through the asset-backed securities issued under the DOT Secondary Market Financing Program than through other financing tools, making new capital available for state, local and private infrastructure investment and bringing down interest costs.

There is growing interest in the financial community to develop and sell securitized, DOT-supported infrastructure investment products. As the market for these products matures, DOT will be able to continue to roll over existing Federal investments into new generations of transportation infrastructure.

Through its Secondary Market Financing Program--*without increasing the deficit, raising taxes, cutting spending, or violating the budget enforcement agreement*--DOT can channel as much as eighty billion additional private dollars into Rebuilding America.

CONGRESS OF THE UNITED STATES

TESTIMONY OF CONGRESSMAN CHRISTOPHER SHAYS (CT-4)

Economic Development Subcommittee

February 3, 1993

Thank you, Chairman Wise and Representative Molinari for holding these important hearings on the need for infrastructure investment. I would like to focus on two areas I believe are critical in our efforts to stimulate the economy -- investing in our cities and the environment.

As you may know, Congressman Kweisi Mfume and I have developed a "Marshall Plan to Rebuild Our Cities" that is designed to rebuild urban areas by attracting businesses back into our cities to provide new tax revenues and create jobs. It is a long term package, and if enacted will cost $67 billion over five years.

I don't see how we can move this country forward if we leave our cities behind. One of our bills, the Targeted Economic Development Block Grant Act (EDBG Act) of 1993, is a valuable component of any initiative to stimulate the economy and help rebuild our cities.

The EDBG Act is a new version of an existing program. It is

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modeled after the Community Development Block Grant Program (CDBG) but altered in the way funds are allocated and how they can be used.

To have maximum impact, we must direct funds where they are needed the most. So in terms of allocation, EDBG funds are only available to 645 of the neediest urban areas.

To have lasting impact, EDBG funds can be only be used for economic development projects.

The EDBG allocation formula is a modified CDBG formula ensuring that the needier the city, the more EDBG funds per capita it would receive. Working with the General Accounting Office (GAO), we improved upon the CDBG allocation formula by merging in per capita income with some parts of the CDBG allocation formula. What resulted was a "needs index" where the cities were ranked according to their need. The higher on the index they were, the more EDBG funds they receive per capita.

Unlike CDBG, state and local matches are required, but vary according to state and local per capita income. Lower income cities and states thus pay lower matching rates. The federal share of EDBG projects ranges from 91.9 to 69 percent, the state share from 24 percent to 9.2 percent, and the local share from 18 percent to 3.9 percent.

This application process facilitates economic planning and coordination between the state and the city, so that resources are maximized and EDBG funds well spent.

Eligible projects include those that meet one of these two national objectives:

1. Provide financial incentives for business creation, retention and expansion. Appropriate uses include:

   - assistance for business expansion i.e. demolition or renovation of abandoned buildings.
   - technical assistance for would-be small business owners.
   - Environmental site assessment and cleanup of sites with significant economic potential.

2. Make infrastructure improvements in cities to improve their viability as business locales. Appropriate uses include:

   - access roads
   - land clearing
   - parking lots
   - beautification (greenspacing)
   - industrial parks
   - harbor development

My second hope is that any economic stimulus package include funds for environmental infrastructure financing.

The investment needed to comply with existing clean water standards is rapidly exceeding the financial capacity of local and state governments.

Given the high costs associated with upgrading sewage treatment plants, it is imperative the federal government play a greater role in the financing of these projects.

I believe injecting additional funds into the State Revolving Loan Fund (SRF) program to assist municipalities in upgrading and retrofitting sewage treatment plants would be a wise use of economic stimulus monies. This would have the obvious effect of creating jobs and enhancing water quality.

Another option is to follow the lead of my colleagues Nita Lowey and Rosa DeLauro, who introduced legislation to create a special estuary account within the SRF that will assist states in implementing programs under the National Estuary Program (NEP). There are 17 estuaries nationwide that have been designated "estuaries of national significance" which are essential to the economic vitality of many regions. Providing additional resources for estuary programs through the SRF will have a positive economic effect.

Thank you for this opportunity testify before you today.

ECONOMIC DEVELOPMENT BLOCK GRANT (EDBG)

I. OBJECTIVES

A. Provide financial incentives for business creation, retention, and expansion in targeted urban areas.

B. Make infrastructure improvements in targeted urban areas to improve their viability as business locales.

II. ELIGIBILITY

A. Amend Title I of the Housing and Community Development Act of 1974 to establish an EDBG program for targeted cities.

B. Funding will be allocated to 645 cities based on a needs vs. resources formula that targets cities with a large dependent population lacking the tax base to pay for required city services and economic investment activities.

* The formula includes the need-based criteria of the Community Development Block Grant (CDBG) program coupled with an income-based variable.

* The "needs index" accounts for a city's overall population, poverty population, inventory of pre-1940 housing, overcrowded housing and population growth lag while the "income index" increases the sensitivity of the formula to low-income cities.

III. APPLICATION PROCESS

A. EDBG Funds will be held by Secretary of HUD. A signed application from the governor and mayor for each economic development project is to be submitted. HUD must do an "up front" review of proposed projects, to be completed within 20 days.

B. Application must demonstrate that the state and locality will provide the required match as defined by the EDBG formula.

* State and local match must be in cash. In-kind matches are not permitted.

C. Application must demonstrate that certain pre-application submission requirements have been met, including the following:

* An EDBG review commission has been set up to determine which projects to fund, subject to the review of HUD.

  - the commission shall be comprised of state and local officials, representatives of the business community, and community leaders.

* It has met the minimum "citizen participation requirements," including furnishing citizens with information on the level of funding and range of activities for which the funds can be used, and holding at least one public hearing conducted be the EDBG review board to solicit the input of the community.

* A "Statement of Activities" outlining projects it proposes to undertake in the coming program year.

D. EDBG funds may be used to attain two national objectives:

* Provide financial incentives for business creation, retention and expansion in urban areas. Appropriate uses include:

  - assistance for business expansion i.e. demolition or renovation of abandoned buildings
  - technical assistance for would-be small business owners.
  - environmental site assessment and clean-up of contaminated sites with significant economic development potential. Encourage developers to recycle sites to be used for commercial, residential, industrial or recreational uses.

* Make infrastructure improvements in cities to improve their viability as business locales. Appropriate uses include:

  - Access roads
  - land clearing
  - parking lots
  - beautification (greenspacing)

E. EDBG funds may not be used for the following:

* loans of any kind
* personnel costs
* city general fund
* debt service
* any activity to attract, promote or retain Class I, II, or III gaming.

* lobbying
* job training
* housing repair, maintenance, or construction.
* entertainment expenses
* transportation, meals, accommodations of grantees or any individual.
* petty cash
* office items
* personal items
* utility bills
* rent
* any other activity HUD deems incompatible with the objectives of the EDBG criteria.

F. In all projects undertaken using EDBG funds, the city much give at least 5 percent of all contracts to minority-owned businesses.

G. All funds must be accounted for in a financial report to HUD every six months.

H. Deviation from HUD-approved plan of action unless approved in writing by the Assistant Secretary of Community Planning and Development (ASCPD) is grounds for grant revocation.

($5.0 Billion Annually)

TABLE 3A: EDBG GRANT, STATE AND LOCAL MATCH, PROJECT TOTAL AND SHARES

ST	City	Grant Amount ($1000s)	Grant Per Capita	Local Match Amount ($1000s)	Local Match Rate (Per $ of Grant)	State Match Amount ($1000s)	State Match Rate (Per $ of Grant)	Total Project Funding Amount ($1,000s)	Total Project Funding Per Capita	Percentage Shares of Project Cost Fed	Local	State
AL												
AL	ANNISTON	$2,073	$71	$145	$0.07	$286	$0.14	$2,504	$86	82.8	5.8	11.4
AL	BESSEMER	2,288	61	141	0.06	316	0.14	2,744	73	83.4	5.1	11.5
AL	BIRMINGHAM	22,179	80	1,271	0.06	3,063	0.14	26,513	96	83.7	4.8	11.6
AL	DECATUR	1,310	28	281	0.21	181	0.14	1,771	38	74.0	15.8	10.2
AL	DOTHAN	1,890	35	315	0.17	261	0.14	2,466	46	76.6	12.8	10.6
AL	FLORENCE	1,226	35	187	0.15	169	0.14	1,582	45	77.5	11.8	10.7
AL	GADSDEN	3,620	81	225	0.06	500	0.14	4,345	97	83.3	5.2	11.5
AL	HUNTSVILLE	4,151	26	1,038	0.25	573	0.14	5,763	36	72.0	18.0	10.0
AL	MOBILE	8,699	42	1,129	0.13	1,202	0.14	11,030	53	78.9	10.2	10.9
AL	MONTGOMERY	8,156	42	1,071	0.13	1,126	0.14	10,354	54	78.8	10.3	10.9
AL	TUSCALOOSA	3,835	52	352	0.09	530	0.14	4,716	64	81.3	7.5	11.2
AK												
AK	ANCHORAGE	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
AZ												
AZ	CHANDLER	1,412	17	353	0.25	213	0.15	1,978	24	71.4	17.8	10.8
AZ	GLENDALE	2,683	19	671	0.25	405	0.15	3,758	27	71.4	17.8	10.8
AZ	MESA	4,482	16	1,121	0.25	677	0.15	6,279	22	71.4	17.8	10.8
AZ	PHOENIX	25,716	28	5,864	0.23	3,882	0.15	35,461	38	72.5	16.5	10.9
AZ	SCOTTSDALE	0	0	NA	NA	0	0.15	NA	NA	NA	NA	NA
AZ	TEMPE	2,758	20	[illegible]	0.25	416	0.15	3,863	28	71.4	17.8	10.8
AZ	TUCSON	13,636	35	2,039	0.15	2,058	0.15	17,733	45	76.9	11.5	11.6
AZ	YUMA	1,621	32	255	0.16	245	0.15	2,121	41	76.4	12.0	11.5
AR												
AR	FAYETTEVILLE	1,312	32	[illegible]	0.16	170	0.13	1,693	42	77.6	12.4	10.1
AR	FORT SMITH	2,309	31	[illegible]	0.19	300	0.13	3,057	41	75.5	14.7	9.8
AR	JACKSONVILLE	708	24	134	0.19	92	0.13	933	32	75.8	14.3	9.8
AR	LITTLE ROCK	5,746	32	1,218	0.21	746	0.13	7,709	43	74.5	15.8	9.7
AR	NORTH LITTLE ROCK	2,005	32	354	0.18	260	0.13	2,620	42	76.5	13.5	9.9
AR	PINE BLUFF	3,472	57	268	0.08	451	0.13	4,190	68	82.9	6.4	10.8
AR	SPRINGDALE	682	25	147	0.21	88	0.13	917	34	74.4	16.0	9.7
AR	TEXARKANA	970	43	105	0.11	126	0.13	1,200	53	80.8	8.7	10.5
AR	WEST MEMPHIS	1,728	62	125	0.07	224	0.13	2,078	74	83.2	6.0	10.8
CA												
CA	ALAMEDA	2,412	32	569	0.24	480	0.20	3,461	46	69.7	16.4	13.9
CA	ALHAMBRA	2,657	37	[illegible]	0.15	529	0.20	3,592	50	74.0	11.3	14.7
CA	ANAHEIM	6,312	26	1,578	0.25	1,257	0.20	9,148	37	69.0	17.3	13.7
CA	ANTIOCH	887	16	222	0.25	177	0.20	1,285	23	69.0	17.3	13.7
CA	BAKERSFIELD	3,572	22	893	0.25	711	0.20	5,176	32	69.0	17.3	13.7
CA	BALDIN PARK	3,343	50	265	0.08	666	0.20	4,274	64	78.2	6.2	15.6
CA	BELLFLOWER	1,787	30	356	0.20	356	0.20	2,498	41	71.5	14.2	14.2
CA	BERKELEY	8,754	84	753	0.09	1,743	0.20	11,250	109	77.8	6.7	15.5
CA	BUENA PARK	1,810	27	[illegible]	0.25	360	0.20	2,615	39	69.2	17.0	13.8
CA	BURBANK	2,835	31	681	0.24	565	0.20	4,081	44	69.5	16.7	13.8
CA	CARLSBAD	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	CARSON	3,220	36	519	0.16	641	0.20	4,381	49	73.5	11.9	14.6
CA	CERRITOS	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	CHICO	1,370	38	165	0.12	273	0.20	1,807	51	75.8	9.1	15.1
CA	CHINO	1,106	19	276	0.25	220	0.20	1,602	28	69.0	17.3	13.7
CA	CHULA VISTA	3,525	28	737	0.21	702	0.20	4,964	39	71.0	14.9	14.1
CA	COMPTON	7,239	76	362	0.05	1,441	0.20	9,042	95	80.1	4.0	15.9
CA	CONCORD	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	CORONA	1,288	23	322	0.25	257	0.20	1,867	34	69.0	17.3	13.7
CA	COSTA MESA	2,127	23	532	0.25	424	0.20	3,083	34	69.0	17.3	13.7
CA	DALY CITY	2,709	32	537	0.20	540	0.20	3,786	44	71.6	14.2	14.2
CA	DAVIS	1,726	41	262	0.15	344	0.20	2,332	55	74.0	11.2	14.7
CA	DOWNEY	2,007	23	502	0.25	400	0.20	2,909	34	69.0	17.3	13.7
CA	EL CAJON	2,360	27	489	0.21	470	0.20	3,319	38	71.1	14.7	14.2
CA	EL MONTE	6,308	65	376	0.06	1,256	0.20	7,940	81	79.4	4.7	15.8
CA	ENCINITAS	897	18	224	0.25	179	0.20	1,300	26	69.0	17.3	13.7
CA	ESCONDIDO CITY	2,169	23	542	0.25	432	0.20	3,143	33	69.0	17.3	13.7
CA	FAIRFIELD	1,496	20	374	0.25	298	0.20	2,167	30	69.0	17.3	13.7
CA	FONTANA	1,475	20	358	0.24	294	0.20	2,127	29	69.3	16.9	13.8
CA	FOUNTAIN VALLEY	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	FREMONT	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	FRESNO	10,942	36	1,595	0.15	2,179	0.20	14,715	48	74.4	10.8	14.8
CA	FULLERTON	2,384	22	596	0.25	475	0.20	3,455	31	69.0	17.3	13.7
CA	GARDEN GROVE	3,744	28	854	0.23	745	0.20	5,343	39	70.1	16.0	14.0
CA	GARDENA	1,809	36	330	0.18	360	0.20	2,499	50	72.4	13.2	14.4
CA	GLENDALE	4,918	31	1,190	0.24	979	0.20	7,088	44	69.4	16.8	13.8
CA	HAWTHORNE	2,411	36	405	0.17	480	0.20	3,296	49	73.1	12.3	14.6
CA	HAYWARD	2,780	27	634	0.23	554	0.20	3,968	38	70.1	16.0	14.0
CA	HUNTINGTON BEACH	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	HUNTINGTON PARK	4,908	89	245	0.05	977	0.20	6,130	111	80.1	4.0	15.9
CA	INGLEWOOD	5,133	49	555	0.11	1,022	0.20	6,711	65	76.5	8.3	15.2
CA	IRVINE	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA

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CA	LA MESA CITY	1,140	22	285	0.25	227	0.20	1,652	32	69.0	17.3	13.7
CA	LAKEWOOD	1,370	18	342	0.25	273	0.20	1,985	26	69.0	17.3	13.7
CA	LANCASTER	1,246	16	312	0.25	248	0.20	1,806	24	69.0	17.3	13.7
CA	LIVERMORE	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	LOMPOC	926	28	175	0.19	184	0.20	1,285	39	72.1	13.6	14.4
CA	LONG BEACH	15,510	37	2,751	0.18	3,089	0.20	21,349	51	72.6	12.9	14.5
CA	LOS ANGELES	170,544	51	23,327	0.14	33,961	0.20	227,832	68	74.9	10.2	14.9
CA	LYNWOOD	3,801	68	198	0.05	757	0.20	4,756	85	79.9	4.2	15.9
CA	MERCED	1,735	35	253	0.15	346	0.20	2,334	46	74.3	10.8	14.8
CA	MODESTO	3,248	22	812	0.25	647	0.20	4,707	32	69.0	17.3	13.7
CA	MONTEBELLO	2,483	44	304	0.12	494	0.20	3,281	58	75.7	9.3	15.1
CA	MONTEREY	536	18	134	0.25	107	0.20	777	25	69.0	17.3	13.7
CA	MONTEREY PARK	2,215	36	358	0.16	441	0.20	3,014	49	73.5	11.9	14.6
CA	MORENO VALLEY	1,159	13	290	0.25	231	0.20	1,679	19	69.0	17.3	13.7
CA	MOUNTAIN VIEW	1,352	22	338	0.25	269	0.20	1,959	32	69.0	17.3	13.7
CA	NAPA CITY	1,188	21	297	0.25	236	0.20	1,721	30	69.0	17.3	13.7
CA	NATIONAL CITY	3,038	53	219	0.07	605	0.20	3,861	68	78.7	5.7	15.7
CA	NEWPORT BEACH	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	NORWALK	3,824	42	438	0.11	762	0.20	5,024	55	76.1	8.7	15.2
CA	OAKLAND	23,679	66	2,232	0.09	4,715	0.20	30,626	86	77.3	7.3	15.4
CA	OCEANSIDE	2,971	26	637	0.21	592	0.20	4,200	37	70.7	15.2	14.1
CA	ONTARIO	3,354	27	651	0.19	668	0.20	4,674	38	71.8	13.9	14.3
CA	ORANGE	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	OXNARD	6,080	47	676	0.11	1,211	0.20	7,967	61	76.3	8.5	15.2
CA	PALM SPRINGS	878	28	220	0.25	175	0.20	1,273	41	69.0	17.3	13.7
CA	PALO ALTO	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	PASADENA	4,905	37	1,037	0.21	977	0.20	6,918	52	70.9	15.0	14.1
CA	PICO RIVERA	2,804	50	259	0.09	558	0.20	3,621	64	77.4	7.1	15.4
CA	POMONA	5,030	42	573	0.11	1,002	0.20	6,604	55	76.2	8.7	15.2
CA	PORTERVILLE	938	37	104	0.11	187	0.20	1,228	48	76.3	8.5	15.2
CA	RANCHO CUCAMONGA	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	REDDING	1,168	21	292	0.25	233	0.20	1,692	31	69.0	17.3	13.7
CA	REDLANDS	1,088	19	272	0.25	217	0.20	1,576	27	69.0	17.3	13.7
CA	REDONDO BEACH	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	REDWOOD CITY	1,400	23	350	0.25	279	0.20	2,028	34	69.0	17.3	13.7
CA	RIALTO	1,113	17	278	0.25	222	0.20	1,613	25	69.0	17.3	13.7
CA	RICHMOND	3,398	42	460	0.14	677	0.20	4,535	56	74.9	10.1	14.9
CA	RIVERSIDE	5,449	26	1,298	0.24	1,085	0.20	7,831	37	69.6	16.6	13.9
CA	ROSEVILLE	619	18	155	0.25	123	0.20	897	26	69.0	17.3	13.7
CA	SACRAMENTO	10,498	31	2,005	0.19	2,091	0.20	14,594	43	71.9	13.7	14.3
CA	SALINAS	4,098	41	486	0.12	816	0.20	5,400	53	75.9	9.0	15.1
CA	SAN BERNADINO	5,388	36	731	0.14	1,073	0.20	7,192	48	74.9	10.2	14.9
CA	SAN DIEGO	29,844	28	7,112	0.24	5,943	0.20	42,899	40	69.6	16.6	13.9
CA	SAN FRANCISCO	54,712	75	5,670	0.10	10,895	0.20	71,277	97	76.8	8.0	15.3
CA	SAN JOSE	18,155	25	4,539	0.25	3,615	0.20	26,308	36	69.0	17.3	13.7
CA	SAN LEANDRO	1,747	26	437	0.25	348	0.20	2,531	38	69.0	17.3	13.7
CA	SAN MATEO	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	SANTA ANA	12,192	51	1,288	0.11	2,428	0.20	15,908	66	76.6	8.1	15.3
CA	SANTA BARBARA	2,430	31	604	0.25	484	0.20	3,517	45	69.1	17.2	13.8
CA	SANTA CLARA	1,769	20	442	0.25	352	0.20	2,563	29	69.0	17.3	13.7
CA	SANTA CLARITA	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	SANTA CRUZ	1,509	32	302	0.20	300	0.20	2,111	44	71.5	14.3	14.2
CA	SANTA MARIA	1,826	35	254	0.14	364	0.20	2,444	46	74.7	10.4	14.9
CA	SANTA MONICA	2,469	26	617	0.25	492	0.20	3,577	38	69.0	17.3	13.7
CA	SANTA ROSA	1,929	18	482	0.25	384	0.20	2,796	26	69.0	17.3	13.7
CA	SANTEE	867	16	217	0.25	173	0.20	1,256	23	69.0	17.3	13.7
CA	SEASIDE	1,407	38	160	0.11	280	0.20	1,848	50	76.2	8.7	15.2
CA	SIMI VALLEY	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	SOUTH GATE	4,426	54	319	0.07	881	0.20	5,626	69	78.7	5.7	15.7
CA	SOUTH SAN FRANCISCO	1,316	25	329	0.25	262	0.20	1,907	37	69.0	17.3	13.7
CA	STOCKTON	6,902	36	975	0.14	1,374	0.20	9,251	49	74.6	10.5	14.9
CA	SUNNYVALE	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	THOUSAND OAKS	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	TORRANCE	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	TULARE	1,135	40	124	0.11	226	0.20	1,485	52	76.4	8.3	15.2
CA	TURLOCK	1,009	27	194	0.19	201	0.20	1,404	37	71.9	13.8	14.3
CA	UNION CITY	1,188	23	297	0.25	237	0.20	1,721	33	69.0	17.3	13.7
CA	UPLAND	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	VACAVILLE	975	15	244	0.25	194	0.20	1,413	22	69.0	17.3	13.7
CA	VALLEJO	2,567	25	571	0.22	511	0.20	3,649	36	70.3	15.7	14.0
CA	VENTURA	1,755	20	439	0.25	350	0.20	2,544	29	69.0	17.3	13.7
CA	VISALIA	1,533	23	379	0.25	305	0.20	2,218	34	69.1	17.1	13.8
CA	VISTA	1,248	22	312	0.25	249	0.20	1,808	32	69.0	17.3	13.7
CA	WALNUT CREEK	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
CA	WEST COVINA	1,685	17	421	0.25	336	0.20	2,442	25	69.0	17.3	13.7
CA	WESTMINSTER	1,823	25	456	0.25	363	0.20	2,642	36	69.0	17.3	13.7

TABLE 3A: CDBG GRANT, STATE AND LOCAL MATCH, PROJECT TOTAL AND SHARES

ST	City	Grant Amount ($1000s)	Grant Per Capita	Local Match Amount ($1000s)	Local Match Rate (Per $ of Grant)	State Match Amount ($1000s)	State Match Rate (Per $ of Grant)	Total Project Funding Amount ($1,000s)	Total Project Funding Per Capita	Percentage Shares of Project Cost: Fed	Local	State
CA	WHITTIER	1,575	21	384	0.25	314	0.20	2,283	31	69.0	17.3	13.7
CA	WOODLAND	875	23	216	0.25	174	0.20	1,265	34	69.2	17.0	13.8
CA	YUBA	619	27	114	0.18	123	0.20	856	37	72.3	13.3	14.4
CO												
CO	ARVADA	0	0	NA	NA	0	0.18	NA	NA	NA	NA	NA
CO	AURORA	0	0	NA	NA	0	0.18	NA	NA	NA	NA	NA
CO	BOULDER	2,285	30	551	0.24	404	0.18	3,240	43	70.5	17.0	12.5
CO	COLORADO SPRINGS	5,403	19	1,351	0.25	955	0.18	7,709	27	70.1	17.5	12.4
CO	DENVER	25,634	52	3,271	0.13	4,531	0.18	33,436	68	76.7	9.8	13.5
CO	FORT COLLINS	1,949	25	443	0.23	345	0.18	2,737	35	71.2	16.2	12.6
CO	GREELEY	1,979	34	295	0.15	350	0.18	2,624	45	75.4	11.2	13.3
CO	LAKEWOOD	0	0	NA	NA	0	0.18	NA	NA	NA	NA	NA
CO	LONGMONT	761	15	190	0.25	134	0.18	1,085	21	70.1	17.5	12.4
CO	LOVELAND	559	15	140	0.25	99	0.18	798	21	70.1	17.5	12.4
CO	PUEBLO	4,053	40	469	0.12	716	0.18	5,238	52	77.4	8.9	13.7
CO	WESTMINSTER	0	0	NA	NA	0	0.18	NA	NA	NA	NA	NA
CT												
CT	BRIDGEPORT	11,379	81	754	0.07	2,756	0.24	14,889	107	76.4	5.1	18.5
CT	BRISTOL	1,204	20	301	0.25	292	0.24	1,797	30	67.0	16.8	16.2
CT	DANBURY	1,399	22	350	0.25	339	0.24	2,088	32	67.0	16.8	16.2
CT	EAST HARTFORD	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
CT	FAIRFIELD	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
CT	GREENWICH	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
CT	HAMDEN TOWN	1,024	19	256	0.25	248	0.24	1,528	29	67.0	16.8	16.2
CT	HARTFORD	13,008	99	659	0.05	3,151	0.24	16,818	128	77.3	3.9	18.7
CT	MANCHESTER TOWN	1,026	20	256	0.25	248	0.24	1,531	30	67.0	16.8	16.2
CT	MERIDEN	2,198	37	408	0.19	533	0.24	3,138	54	70.0	13.0	17.0
CT	MIDDLETOWN	1,173	30	273	0.23	284	0.24	1,730	44	67.8	15.8	16.4
CT	MILFORD	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
CT	NEW BRITAIN	5,308	74	446	0.08	1,286	0.24	7,040	98	75.4	6.3	18.3
CT	NEW HAVEN	12,219	99	679	0.06	2,960	0.24	15,858	128	77.1	4.3	18.7
CT	NEW LONDON	2,515	90	163	0.07	609	0.24	3,287	118	76.5	5.0	18.5
CT	NORWALK	2,304	30	576	0.25	558	0.24	3,438	45	67.0	16.8	16.2
CT	NORWICH	2,585	69	231	0.09	626	0.24	3,442	92	75.1	6.7	18.2
CT	STAMFORD	2,930	29	733	0.25	710	0.24	4,373	44	67.0	16.8	16.2
CT	STRATFORD TOWN	1,370	27	342	0.25	332	0.24	2,044	41	67.0	16.8	16.2
CT	WATERBURY	6,474	62	617	0.10	1,568	0.24	8,660	83	74.8	7.1	18.1
CT	WEST HARTFORD	2,468	42	617	0.25	598	0.24	3,683	63	67.0	16.8	16.2
CT	WEST HAVEN	1,515	28	361	0.24	367	0.24	2,243	42	67.5	16.1	16.4
DE												
DE	WILMINGTON	8,391	120	420	0.05	1,631	0.19	10,442	149	80.4	4.0	15.6
DC												
DC	WASHINGTON	53,013	86	4,668	0.09	NA	NA	57,681	93	91.9	8.1	NA
FL												
FL	BOCA RATON	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
FL	BRADENTON	1,125	28	235	0.21	178	0.16	1,538	38	73.1	15.3	11.6
FL	CAPE CORAL	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
FL	CLEARWATER	1,795	18	449	0.25	284	0.16	2,527	26	71.0	17.8	11.2
FL	COCOA	743	39	102	0.14	117	0.16	962	50	77.2	10.6	12.2
FL	CORAL SPRINGS	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
FL	DAYTONA BEACH	2,892	46	338	0.12	457	0.16	3,687	58	78.4	9.2	12.4
FL	DELRAY BEACH	1,227	27	307	0.25	194	0.16	1,728	38	71.0	17.8	11.2
FL	FORT PIERCE	2,412	61	170	0.07	381	0.16	2,964	75	81.4	5.7	12.9
FL	FORT WALTON BEACH	600	26	142	0.24	95	0.16	838	37	71.7	17.0	11.3
FL	FT LAUDERDALE	5,998	41	1,244	0.21	948	0.16	8,191	56	73.2	15.2	11.6
FL	FT MYERS	2,013	46	258	0.13	318	0.16	2,589	59	77.7	10.0	12.3
FL	GAINESVILLE	3,843	45	468	0.12	607	0.16	4,919	57	78.1	9.5	12.4
FL	HIALEAH	12,548	77	741	0.06	1,983	0.16	15,273	94	82.2	4.9	13.0
FL	HOLLYWOOD	2,912	24	728	0.25	460	0.16	4,100	34	71.0	17.8	11.2
FL	JACKSONVILLE	21,624	32	4,004	0.19	3,418	0.16	29,046	43	74.4	13.8	11.8
FL	LAKELAND	1,819	27	386	0.21	288	0.16	2,492	38	73.0	15.5	11.5
FL	LARGO	1,016	16	254	0.25	161	0.16	1,431	22	71.0	17.8	11.2
FL	MELBOURNE	1,361	23	340	0.25	215	0.16	1,917	32	71.0	17.8	11.2
FL	MIAMI	39,215	106	1,961	0.05	6,199	0.16	47,375	128	82.8	4.1	13.1
FL	MIAMI BEACH	5,916	64	646	0.11	935	0.16	7,497	81	78.9	8.6	12.5
FL	NAPLES	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
FL	OCALA	1,878	39	245	0.13	297	0.16	2,420	51	77.6	10.1	12.3
FL	ORLANDO	5,371	34	961	0.18	849	0.16	7,181	46	74.8	13.4	11.8
FL	PANAMA CITY	1,555	44	174	0.11	246	0.16	1,974	55	78.7	8.8	12.4
FL	PENSACOLA	2,494	40	372	0.15	394	0.16	3,260	52	76.5	11.4	12.1
FL	PLANTATION	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
FL	POMPANO BEACH	2,542	37	560	0.22	402	0.16	3,504	51	72.6	16.0	11.5
FL	SARASOTA	1,721	32	385	0.22	272	0.16	2,378	45	72.4	16.2	11.4
FL	ST PETERSBURG	7,862	33	1,467	0.19	1,243	0.16	10,572	45	74.4	13.9	11.8
FL	SUNRISE	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
FL	TALLAHASSEE	4,454	35	748	0.17	704	0.16	5,906	47	75.4	12.7	11.9

TABLE 3A: EDBG GRANT, STATE AND LOCAL MATCH, PROJECT TOTAL AND SHARES

ST	City	Grant Amount ($1000s)	Grant Per Capita	Local Match Amount ($1000s)	Local Match Rate (Per $ of Grant)	State Match Amount ($1000s)	State Match Rate (Per $ of Grant)	Total Project Funding Amount ($1,000s)	Total Project Funding Per Capita	Percentage Shares of Project Cost Fed	Percentage Shares of Project Cost Local	Percentage Shares of Project Cost State
FL	TAMPA	12,332	44	1,588	0.13	1,949	0.16	15,869	56	77.7	10.0	12.3
FL	TITUSVILLE	977	23	244	0.25	154	0.16	1,375	32	71.0	17.8	11.2
FL	WEST PALM BEACH	2,804	38	518	0.18	443	0.16	3,766	52	74.5	13.8	11.8
FL	WINTERHAVEN	843	34	156	0.18	133	0.16	1,132	45	74.5	13.7	11.8
GA												
GA	ALBANY	4,919	59	404	0.08	812	0.16	6,135	73	80.2	6.6	13.2
GA	ATHENS	1,995	48	204	0.10	329	0.16	2,528	61	78.9	8.1	13.0
GA	ATLANTA	30,711	73	2,515	0.08	5,067	0.16	38,293	91	80.2	6.6	13.2
GA	AUGUSTA	6,016	140	301	0.05	992	0.16	7,309	171	82.3	4.1	13.6
GA	COLUMBUS	7,022	39	946	0.13	1,159	0.16	9,127	51	76.9	10.4	12.7
GA	MACON	6,072	51	615	0.10	1,002	0.16	7,689	65	79.0	8.0	13.0
GA	MARIETTA	929	19	232	0.25	153	0.16	1,315	27	70.7	17.7	11.7
GA	SAVANNAH	7,398	51	742	0.10	1,221	0.16	9,360	64	79.0	7.9	13.0
GA	WARNER ROBINS	1,129	25	271	0.24	186	0.16	1,586	34	71.2	17.1	11.7
HI												
HI	HONOLULU	34,000	41	5,466	0.16	6,384	0.19	45,850	55	74.2	11.9	13.9
ID												
ID	BOISE	2,113	18	528	0.25	278	0.13	2,919	25	72.4	18.1	9.5
IL												
IL	ARLINGTON HTS	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
IL	AURORA	2,422	27	556	0.23	474	0.20	3,451	38	70.2	16.1	13.7
IL	BERWYN	4,182	94	320	0.08	819	0.20	5,321	120	78.6	6.0	15.4
IL	BLOOMINGTON	1,772	36	325	0.18	347	0.20	2,443	50	72.5	13.3	14.2
IL	CHAMPAIGN	1,957	33	337	0.17	383	0.20	2,677	45	73.1	12.6	14.3
IL	CHICAGO	272,673	92	16,473	0.06	53,390	0.20	342,535	115	79.6	4.8	15.6
IL	CHICAGO HEIGHTS	1,564	44	171	0.11	306	0.20	2,041	57	76.6	8.4	15.0
IL	CICERO	5,441	88	317	0.06	1,065	0.20	6,823	111	79.7	4.6	15.6
IL	DECATUR	3,917	44	529	0.14	767	0.20	5,213	59	75.1	10.2	14.7
IL	DES PLAINES	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
IL	EAST ST LOUIS	7,379	160	369	0.05	1,445	0.20	9,193	195	80.3	4.0	15.7
IL	ELGIN	1,935	28	431	0.22	379	0.20	2,745	39	70.5	15.7	13.8
IL	EVANSTON	5,115	73	610	0.12	1,001	0.20	6,726	96	76.0	9.1	14.9
IL	JOLIET	3,314	44	426	0.13	649	0.20	4,388	59	75.5	9.7	14.8
IL	KANKAKEE	1,893	71	135	0.07	371	0.20	2,398	89	78.9	5.6	15.5
IL	MOLINE	2,256	52	287	0.13	442	0.20	2,985	69	75.6	9.6	14.8
IL	MOUNT PROSPECT	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
IL	NAPERVILLE	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
IL	NORMAL	[illegible]	25	209	0.21	195	0.20	1,397	35	71.1	15.0	13.9
IL	NORTH CHICAGO	782	19	195	0.25	153	0.20	1,130	28	69.2	17.3	13.5
IL	OAK LAWN	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
IL	OAK PARK	4,860	91	434	0.09	952	0.20	6,246	116	77.8	6.9	15.2
IL	PEKIN	1,115	36	170	0.15	218	0.20	1,503	48	74.2	11.3	14.5
IL	PEORIA	5,872	54	677	0.12	1,150	0.20	7,699	70	76.3	8.8	14.9
IL	RANTOUL	698	35	91	0.13	137	0.20	925	46	75.4	9.8	14.8
IL	ROCK ISLAND	3,584	85	237	0.07	702	0.20	4,524	107	79.2	5.2	15.5
IL	ROCKFORD	5,662	42	799	0.14	1,109	0.20	7,569	56	74.8	10.6	14.6
IL	SCHAUMBURG VILLAGE	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
IL	SKOKIE	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
IL	SPRINGFIELD	3,851	39	644	0.17	754	0.20	5,249	53	73.4	12.3	14.4
IL	URBANA	1,273	34	196	0.15	249	0.20	1,718	46	74.1	11.4	14.5
IL	WAUKEGAN	2,178	30	434	0.20	426	0.20	3,039	42	71.7	14.3	14.0
IN												
IN	ANDERSON	2,295	38	324	0.14	365	0.16	2,984	49	76.9	10.9	12.2
IN	BLOOMINGTON	2,002	37	255	0.13	318	0.16	2,586	47	77.4	10.3	12.3
IN	EAST CHICAGO	4,671	130	234	0.05	743	0.16	5,648	157	82.7	4.1	13.2
IN	ELKHART	2,020	45	267	0.13	321	0.16	2,608	58	77.4	10.2	12.3
IN	EVANSVILLE	8,264	62	756	0.09	1,315	0.16	10,335	78	80.0	7.3	12.7
IN	FORT WAYNE	7,554	42	1,066	0.14	1,202	0.16	9,821	54	76.9	10.9	12.2
IN	GARY	11,670	88	583	0.05	1,856	0.16	14,110	107	82.7	4.1	13.2
IN	GOSHEN	697	31	121	0.17	111	0.16	[illegible]	42	75.0	13.0	11.9
IN	HAMMOND	7,066	83	459	0.06	1,124	0.16	8,649	102	81.7	5.3	13.0
IN	INDIANAPOLIS	24,454	33	4,605	0.19	3,890	0.16	32,949	45	74.2	14.0	11.8
IN	KOKOMO	2,942	67	249	[illegible]	468	0.16	3,659	83	80.4	6.8	12.8
IN	LAFAYETTE	2,084	47	256	0.12	331	0.16	2,671	60	78.0	9.6	12.4
IN	MISHAWAKA	1,400	33	240	0.17	223	0.16	1,862	44	75.2	12.9	12.0
IN	MUNCIE	3,798	52	375	0.10	604	0.16	4,778	65	79.5	7.8	12.6
IN	NEW ALBANY	2,046	54	202	0.10	325	0.16	2,573	69	79.5	7.9	12.6
IN	SOUTH BEND	8,613	81	605	0.07	1,370	0.16	10,587	100	81.3	5.7	12.9
IN	TERRE HAUTE	6,060	108	303	0.05	965	0.16	7,336	130	82.7	4.1	13.2
IN	WEST LAFAYETTE	697	32	134	0.19	111	0.16	942	44	74.0	14.2	11.8
IA												
IA	CEDAR FALLS	646	20	162	0.25	102	0.16	910	28	71.0	17.8	11.2
IA	CEDAR RAPIDS	2,994	27	719	0.24	473	0.16	4,186	38	71.5	17.2	11.3
IA	COUNCIL BLUFFS	2,954	52	299	0.10	467	0.16	3,720	66	79.4	8.1	12.5
IA	DAVENPORT	4,335	45	578	0.13	685	0.16	5,597	58	77.4	10.3	12.2
IA	DES MOINES	11,604	60	1,185	0.10	1,833	0.16	14,622	76	79.4	8.1	12.5

TABLE 3A: EDBG GRANT, STATE AND LOCAL MATCH, PROJECT TOTAL AND SHARES

ST	City	Grant		Local Match		State Match		Total Project Funding		Percentage Shares of Project Cost		
		Amount ($1000s)	Per Capita	Amount ($1000s)	Rate (Per $ of Grant)	Amount ($1000s)	Rate (Per $ of Grant)	Amount ($1,000s)	Per Capita	Fed	Local	State
IA	DUBUQUE	3,046	51	332	0.11	481	0.16	3,859	65	78.9	8.6	12.5
IA	IOWA CITY	1,815	36	308	0.17	287	0.16	2,409	47	75.3	12.8	11.9
IA	SIOUX CITY	6,003	76	[illegible]	0.07	[illegible]	0.16	7,389	93	81.2	5.9	12.8
IA	WATERLOO	3,923	58	[illegible]	0.10	620	0.16	4,928	72	79.6	7.8	12.6
KS												
KS	KANSAS CITY	6,614	41	764	0.12	1,130	0.17	8,507	53	77.7	9.0	13.3
KS	LAWRENCE	1,837	31	309	0.17	314	0.17	2,460	41	74.7	12.6	12.8
KS	LEAVENWORTH	1,125	[illegible]	199	0.18	192	0.17	1,517	39	74.2	13.1	12.7
KS	OVERLAND PARK	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
KS	TOPEKA	5,308	43	751	0.14	907	0.17	6,966	57	76.2	10.8	13.0
KS	WICHITA	7,340	25	1,835	0.25	1,254	0.17	10,429	35	70.4	17.6	12.0
KY												
KY	ASHLAND	2,138	82	146	0.07	305	0.14	2,589	100	82.6	5.6	11.8
KY	COVINGTON	5,544	122	277	0.05	790	0.14	6,611	146	83.9	4.2	12.0
KY	HENDERSON	781	30	142	0.18	111	0.14	1,035	[illegible]	75.5	13.7	10.8
KY	HOPKINSVILLE	1,331	43	148	0.11	190	0.14	1,668	53	79.8	8.8	11.4
KY	LEXINGTON-FAYETTE	6,137	27	1,434	0.23	875	0.14	8,446	37	72.7	17.0	10.4
KY	LOUISVILLE	29,819	106	1,491	0.05	4,250	0.14	35,560	126	83.9	4.2	12.0
KY	OWENSBORO	1,814	32	289	0.16	259	0.14	2,362	41	76.8	12.2	10.9
LA												
LA	ALEXANDRIA	2,933	58	234	0.08	433	0.15	3,600	72	81.5	6.5	12.0
LA	BATON ROUGE	13,110	36	1,993	0.15	1,933	0.15	17,036	47	77.0	11.7	11.3
LA	BOSSIER CITY	1,549	28	272	0.18	[illegible]	0.15	2,049	37	75.6	13.3	11.1
LA	HOUMA	4,191	43	413	0.10	[illegible]	0.15	5,222	53	80.3	7.9	11.8
LA	KENNER	2,052	27	403	0.20	303	0.15	2,757	37	74.4	14.6	11.0
LA	LAFAYETTE	3,392	38	515	0.15	500	0.15	4,407	49	77.0	11.7	11.3
LA	LAKE CHARLES	2,958	40	381	0.13	436	0.15	3,775	51	78.4	10.1	11.6
LA	MONROE	3,661	67	233	0.06	540	0.15	4,434	81	82.6	5.3	12.2
LA	NEW ORLEANS	47,025	88	2,543	0.05	6,934	0.15	56,502	106	83.2	4.5	12.3
LA	SHREVEPORT	9,220	42	1,184	0.13	1,360	0.15	11,763	54	78.4	10.1	11.6
LA	SLIDELL	621	17	155	0.25	92	0.15	868	24	71.6	17.9	10.6
LA	THIBODAUX	708	44	67	0.10	104	0.15	880	55	80.5	7.7	11.9
ME												
ME	AUBURN	1,773	76	130	0.07	283	0.16	2,185	94	[illegible]	5.9	12.9
ME	BANGOR	3,150	102	176	0.06	502	0.16	3,828	124	82.3	4.6	13.1
ME	LEWISTON	2,856	74	200	0.07	456	0.16	3,512	91	81.3	5.7	13.0
ME	PORTLAND	6,204	101	374	0.06	990	0.16	7,568	123	82.0	4.9	13.1
MD												
MD	ANNAPOLIS	1,057	31	264	0.25	204	0.19	1,525	45	69.3	17.3	13.4
MD	BALTIMORE	75,162	100	3,843	0.05	14,505	0.19	93,510	124	80.4	4.1	15.5
MD	CUMBERLAND	3,226	140	161	0.05	623	0.19	4,010	173	80.5	4.0	15.5
MD	FREDERICK	849	[illegible]	212	0.25	164	0.19	1,224	34	69.3	17.3	13.4
MD	HAGERSTOWN	2,892	[illegible]	171	0.06	558	0.19	3,621	104	79.9	4.7	15.4
MA												
MA	ARLINGTON	3,230	74	395	0.12	720	0.22	4,345	99	74.3	9.1	16.6
MA	ATTLEBORO	1,143	32	237	0.21	255	0.22	1,635	46	69.9	14.5	15.6
MA	BOSTON	59,226	102	3,841	0.06	13,202	0.22	76,269	132	77.7	5.0	17.3
MA	BROCKTON	3,908	42	535	0.14	871	0.22	5,314	58	73.5	10.1	16.4
MA	BROOKLINE	3,769	73	598	0.16	[illegible]	0.22	5,207	101	72.4	11.5	16.1
MA	CAMBRIDGE	9,505	105	722	0.08	2,119	0.22	12,345	137	77.0	5.8	17.2
MA	CHICOPEE	3,218	[illegible]	331	0.10	717	0.22	4,266	74	75.4	7.8	16.8
MA	FALL RIVER	8,677	98	434	0.05	1,934	0.22	11,045	124	78.6	3.9	17.5
MA	FITCHBURG	3,397	[illegible]	221	0.06	757	0.22	4,375	112	77.7	5.0	17.3
MA	FRAMINGHAM	0	0	NA	NA	0	0.22	NA	NA	NA	NA	NA
MA	GLOUCESTER	1,812	64	199	0.11	404	0.22	2,415	85	75.0	8.2	16.7
MA	HAVERHILL	3,113	61	324	0.10	694	0.22	4,131	[illegible]	75.4	7.9	16.8
MA	HOLYOKE	4,590	113	230	0.05	1,023	0.22	5,843	143	78.6	3.9	17.5
MA	LAWRENCE	6,235	101	312	0.05	1,390	0.22	7,937	129	78.6	3.9	17.5
MA	LEOMINSTER	1,225	33	244	0.20	273	0.22	1,742	[illegible]	70.3	14.0	15.7
MA	LOWELL	6,365	68	546	0.09	1,419	0.22	8,329	[illegible]	76.4	6.6	17.0
MA	LYNN	8.105	104	462	0.06	1,807	0.22	10,374	133	78.1	4.5	17.4
MA	MALDEN	4,209	79	372	0.09	[illegible]	0.22	5,519	103	76.3	6.7	17.0
MA	MEDFORD	4,770	[illegible]	[illegible]	0.08	1,063	0.22	6,229	110	76.6	6.4	17.1
MA	NEW BEDFORD	8,807	93	450	0.05	1,963	0.22	11,220	119	78.5	4.0	17.5
MA	NEWTON	5,446	68	965	0.18	1,214	0.22	7,625	[illegible]	71.4	12.7	15.9
MA	NORTHAMPTON	2,047	73	178	0.09	456	0.22	2,681	[illegible]	76.4	6.6	17.0
MA	PITTSFIELD	4,332	90	324	0.07	966	0.22	5,622	117	77.1	5.8	17.2
MA	QUINCY	5,880	71	613	0.10	1,311	0.22	7,804	94	75.4	7.9	16.8
MA	SALEM	3,076	80	[illegible]	0.09	686	0.22	4,031	105	76.3	6.7	17.0
MA	SOMERVILLE	8,986	128	449	0.05	2,003	0.22	11,438	163	78.6	3.9	17.5
MA	SPRINGFIELD	12,506	[illegible]	787	0.06	2,788	0.22	16,080	107	77.8	4.9	17.3
MA	WALTHAM	2,793	49	427	0.15	623	0.22	3,843	[illegible]	72.7	11.1	16.2
MA	WESTFIELD	979	25	243	0.25	[illegible]	0.22	1,441	37	68.0	16.9	15.2
MA	WEYMOUTH	1,642	30	411	0.25	366	0.22	2,419	44	67.9	17.0	15.1
MA	WORCESTER	14,460	[illegible]	945	0.07	3,223	0.22	18,629	119	77.6	5.1	17.3
MI												

TABLE 3A: EDBG GRANT, STATE AND LOCAL MATCH, PROJECT TOTAL AND SHARES

		Grant		Local Match		State Match		Total Project Funding		Percentage Shares of Project Cost		
ST	City	Amount ($1000s)	Per Capita	Amount ($1000s)	Rate (Per $ of Grant)	Amount ($1000s)	Rate (Per $ of Grant)	Amount ($1,000s)	Per Capita	Fed	Local	State
MI	ANN ARBOR	3,007	28	752	0.25	519	0.17	4,277	39	70.3	17.6	12.1
MI	BATTLE CREEK	4,158	76	321	0.08	717	0.17	5,196	94	80.0	6.2	13.8
MI	BAY CITY	4,325	109	216	0.05	746	0.17	5,288	133	81.8	4.1	14.1
MI	BENTON HARBOR	1,677	115	84	0.05	289	0.17	2,050	141	81.8	4.1	14.1
MI	CANTON TWP	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	CLINTON TOWNSHIP	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	DEARBORN	6,060	70	644	0.11	1,046	0.17	7,749	90	78.2	8.3	13.5
MI	DEARBORN HEIGHTS	2,851	47	445	0.16	492	0.17	3,788	62	75.3	11.7	13.0
MI	DETROIT	140,815	136	7,041	0.05	24,294	0.17	172,150	166	81.8	4.1	14.1
MI	EAST LANSING	1,999	42	242	0.12	345	0.17	2,586	54	77.3	9.4	13.3
MI	FARMINGTON HILLS	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	FLINT	13,742	97	772	0.06	2,371	0.17	16,886	119	81.4	4.6	14.0
MI	GRAND RAPIDS	10,854	59	1,009	0.09	1,873	0.17	13,735	74	79.0	7.3	13.6
MI	HOLLAND	798	26	185	0.23	138	0.17	1,120	36	71.2	16.5	12.3
MI	JACKSON	4,536	121	227	0.05	783	0.17	5,545	147	81.8	4.1	14.1
MI	KALAMAZOO	5,396	71	430	0.08	931	0.17	6,757	89	79.9	6.4	13.8
MI	LANSING	4,855	39	702	0.14	838	0.17	6,394	51	75.9	11.0	13.1
MI	LINCOLN PARK	2,301	54	252	0.11	397	0.17	2,950	70	78.0	8.6	13.5
MI	LIVONIA	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	MIDLAND	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	MUSKEGON	3,453	86	181	0.05	596	0.17	4,230	105	81.6	4.3	14.1
MI	MUSKEGON HTS	1,489	101	74	0.05	257	0.17	1,821	123	81.8	4.1	14.1
MI	NORTON SHORES	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	PONTIAC	4,876	69	363	0.07	841	0.17	6,079	86	80.2	6.0	13.8
MI	PORT HURON	2,476	72	183	0.07	427	0.17	3,086	89	80.2	5.9	13.8
MI	PORTAGE	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	REDFORD	2,425	44	372	0.15	418	0.17	3,215	58	75.4	11.6	13.0
MI	ROCHESTER HILLS	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	ROSEVILLE	1,183	23	296	0.25	204	0.17	1,682	33	70.3	17.6	12.1
MI	ROYAL OAK	3,526	55	503	0.14	608	0.17	4,637	72	76.0	10.8	13.1
MI	SAGINAW	7,770	108	389	0.05	1,341	0.17	9,499	133	81.8	4.1	14.1
MI	SOUTHFIELD	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	ST CLAIR SHORES	1,912	27	478	0.25	330	0.17	2,719	39	70.3	17.6	12.1
MI	STERLING HEIGHTS	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	TAYLOR	1,898	26	402	0.21	327	0.17	2,628	37	72.2	15.3	12.5
MI	TROY CITY	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	WARREN	2,676	18	669	0.25	462	0.17	3,807	26	70.3	17.6	12.1
MI	WATERFORD TOWNSHIP	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MI	WESTLAND	2,951	36	532	0.18	509	0.17	3,992	49	73.9	13.3	12.8
MI	WYOMING	1,067	17	267	0.25	184	0.17	1,517	24	70.3	17.6	12.1
MN												
MN	BLOOMINGTON	0	0	NA	NA	0	0.18	NA	NA	NA	NA	NA
MN	BROOKLYN PARK	0	0	NA	NA	0	0.18	NA	NA	NA	NA	NA
MN	DULUTH	8,691	106	458	0.05	1,564	0.18	10,713	131	81.1	4.3	14.6
MN	MINNEAPOLIS	41,073	119	2,310	0.06	7,393	0.18	50,777	147	80.9	4.5	14.6
MN	MOORHEAD	689	24	149	0.22	124	0.18	962	34	71.6	15.5	12.9
MN	PLYMOUTH	[illegible]	0	NA	NA	0	0.18	NA	NA	NA	NA	NA
MN	ROCHESTER	0	0	NA	NA	0	0.18	NA	NA	NA	NA	NA
MN	ST CLOUD	1,213	27	242	0.20	218	0.18	1,674	37	72.5	14.5	13.0
MN	ST PAUL	21,986	85	1,658	0.08	3,957	0.18	27,601	107	79.7	6.0	14.3
MS												
MS	BILOXI	1,784	39	207	0.12	211	0.12	2,203	49	81.0	9.4	9.6
MS	GULFPORT	1,563	37	231	0.15	185	0.12	1,979	47	79.0	11.7	9.4
MS	JACKSON	9,536	47	1,088	0.11	1,130	0.12	11,754	58	81.1	9.3	9.6
MS	MOSS POINT	960	51	79	0.08	114	0.12	1,152	61	83.3	6.8	9.9
MS	PASCAGOULA	980	32	161	0.16	116	0.12	1,256	41	78.0	12.8	9.2
MO												
MO	COLUMBIA	1,906	30	365	0.19	319	0.17	2,590	40	73.6	14.1	12.3
MO	FLORISSANT	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MO	INDEPENDENCE	1,978	17	494	0.25	331	0.17	2,803	24	70.6	17.6	11.8
MO	JOPLIN	2,250	54	215	0.10	377	0.17	2,841	68	79.2	7.6	13.3
MO	KANSAS CITY	28,372	65	2,715	0.10	4,749	0.17	35,836	82	79.2	7.6	13.3
MO	SPRINGFIELD	4,101	29	759	0.19	686	0.17	5,547	39	73.9	13.7	12.4
MO	ST CHARLES	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
MO	ST JOSEPH	5,749	78	373	0.06	962	0.17	7,084	96	81.2	5.3	13.6
MO	ST LOUIS	71,531	177	3,577	0.05	11,974	0.17	87,082	216	82.1	4.1	13.8
MT												
MT	BILLINGS	1,720	22	430	0.25	237	0.14	2,387	31	72.1	18.0	9.9
MT	GREAT FALLS	2,197	38	324	0.15	302	0.14	2,823	48	77.8	11.5	10.7
NE												
NE	LINCOLN	3,836	20	959	0.25	627	0.16	5,422	29	70.7	17.7	11.6
NE	OMAHA	13,911	39	2,257	0.16	2,275	0.16	18,443	52	75.4	12.2	12.3
NV												
NV	HENDERSON	0	0	NA	NA	0	0.18	NA	NA	NA	NA	NA
NV	LAS VEGAS	5,410	26	1,330	0.25	961	0.18	7,701	37	70.2	17.3	12.5
NV	NORTH LAS VEGAS	2,113	41	224	0.11	375	0.18	2,712	53	77.9	8.3	13.8

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ST	City	Grant Amount ($1000s)	Grant Per Capita	Local Match Amount ($1000s)	Local Match Rate (Per $ of Grant)	State Match Amount ($1000s)	State Match Rate (Per $ of Grant)	Total Project Funding Amount ($1,000s)	Total Project Funding Per Capita	Percentage Shares of Project Cost: Fed	Local	State
NV	RENO	2,503	21	626	0.25	445	0.18	3,573	31	70.0	17.5	12.4
NV	SPARKS	818	15	205	0.25	145	0.18	1,168	21	70.0	17.5	12.4
NH												
NH	DOVER	838	35	154	0.18	170	0.20	1,162	[illegible]	72.1	13.3	14.6
NH	MANCHESTER	4,893	50	657	0.13	990	0.20	6,540	67	74.8	10.1	15.1
NH	NASHUA	0	0	NA	NA	0	0.20	NA	NA	NA	NA	NA
NH	PORSMOUTH	1,483	58	170	0.11	300	0.20	1,953	76	75.9	8.7	15.4
NH	ROCHESTER	[illegible]	28	146	0.20	145	0.20	1,010	40	71.2	14.4	14.4
NJ												
NJ	ASBURY PARK	1,465	93	76	0.05	355	0.24	1,896	120	77.3	4.0	18.7
NJ	ATLANTIC CITY	6,024	172	301	0.05	1,459	0.24	7,785	222	77.4	3.9	18.7
NJ	BAYONNE	5,780	95	408	0.07	1,400	0.24	7,588	124	76.2	5.4	18.5
NJ	BLOOMFIELD	3,334	70	353	0.11	808	0.24	4,495	95	74.2	7.8	18.0
NJ	BRICK TOWNSHIP	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	BRIDGETON	1,633	87	86	0.05	396	0.24	2,114	113	77.2	4.1	18.7
NJ	CAMDEN	10,713	130	536	0.05	2,595	0.24	13,844	168	77.4	3.9	18.7
NJ	CHERRY HILL TOWNSHIP	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	CLIFTON	4,059	53	594	0.15	983	0.24	5,636	74	72.0	10.5	17.4
NJ	DOVER TOWNSHIP	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	EAST ORANGE	5,033	65	406	0.08	1,219	0.24	6,658	86	75.6	6.1	18.3
NJ	EDISON TOWNSHIP	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	ELIZABETH	7,372	70	571	0.08	1,786	0.24	9,728	93	75.8	5.9	18.4
NJ	GLOUCESTER TWP	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	HAMILTON TOWNSHIP	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	IRVINGTON	3,706	60	372	0.10	898	0.24	4,976	81	74.5	7.5	18.0
NJ	JERSEY CITY	23,764	109	1,188	0.05	5,757	0.24	30,709	141	77.4	3.9	18.7
NJ	LONG BRANCH	1,650	57	190	0.11	400	0.24	2,240	77	73.7	8.5	17.8
NJ	MIDDLETOWN	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	MILLVILLE	886	34	145	0.16	215	0.24	1,247	48	71.1	11.7	17.2
NJ	NEW BRUNSWICK	2,848	72	201	0.07	690	0.24	3,739	95	76.2	5.4	18.5
NJ	NEWARK	35,008	112	1,750	0.05	8,480	0.24	45,239	144	77.4	3.9	18.7
NJ	OLD BRIDGE TOWNSHIP	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	PARSIPPANY-TROYHILLS	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	PASSAIC	4,392	83	258	0.06	1,064	0.24	5,714	107	76.9	4.5	18.6
NJ	PATERSON	11,086	80	609	0.05	2,686	0.24	14,381	104	77.1	4.2	18.7
NJ	PERTH AMBOY	2,878	78	195	0.07	697	0.24	3,770	103	76.3	5.2	18.5
NJ	SAYREVILLE	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	TRENTON	9,982	110	499	0.05	2,418	0.24	12,899	142	77.4	3.9	18.7
NJ	UNION CITY	4,663	87	256	0.05	1,130	0.24	6,049	113	77.1	4.2	18.7
NJ	UNION TOWNSHIP	1,822	35	403	0.22	441	0.24	2,666	52	68.3	15.1	16.6
NJ	VINELAND	1,858	34	305	0.16	450	0.24	2,612	48	71.1	11.7	17.2
NJ	WAYNE TOWNSHIP	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NJ	WOODBRIDGE	0	0	NA	NA	0	0.24	NA	NA	NA	NA	NA
NM												
NM	ALBUQUERQUE	10,766	28	2,323	0.22	1,462	0.14	14,551	38	74.0	16.0	10.0
NM	LAS CRUCES	2,357	42	292	0.12	320	0.14	2,969	53	79.4	9.8	10.8
NM	SANTA FE	1,844	31	358	0.19	250	0.14	2,452	41	75.2	14.6	10.2
NY												
NY	ALBANY	11,901	126	595	0.05	2,581	0.22	15,077	159	78.9	3.9	17.1
NY	AMHERST TOWN	0	0	NA	NA	0	0.22	NA	NA	NA	NA	NA
NY	BABYLON TOWN	3,815	19	954	0.25	827	0.22	5,596	28	68.2	17.0	14.8
NY	BINGHAMTON	7,208	141	360	0.05	1,563	0.22	9,131	179	78.9	3.9	17.1
NY	BUFFALO	54,771	175	2,739	0.05	11,880	0.22	69,390	221	78.9	3.9	17.1
NY	CHEEKTOWAGA TOWN	1,744	17	436	0.25	378	0.22	2,558	25	68.2	17.0	14.8
NY	CLAY TOWN	0	0	NA	NA	0	0.22	NA	NA	NA	NA	NA
NY	COLONIE TOWN	0	0	NA	NA	0	0.22	NA	NA	NA	NA	NA
NY	DUNKIRK	1,581	111	79	0.05	343	0.22	2,003	140	78.9	3.9	17.1
NY	ELMIRA	4,319	132	216	0.05	937	0.22	5,471	168	78.9	3.9	17.1
NY	GLEN FALLS	1,571	95	88	0.06	341	0.22	2,000	121	78.5	4.4	17.0
NY	GREECE TOWN	0	0	NA	NA	0	0.22	NA	NA	NA	NA	NA
NY	HAMBURG TOWN	[illegible]	16	221	0.25	192	0.22	1,295	24	68.2	17.0	14.8
NY	HUNTINGTON TOWN	0	0	NA	NA	0	0.22	NA	NA	NA	NA	NA
NY	IRONDEQUOIT TOWN	2,021	37	417	0.21	438	0.22	2,877	53	70.3	14.5	15.2
NY	ISLIP TOWN	5,741	19	1,435	0.25	1,245	0.22	8,422	28	68.2	17.0	14.8
NY	JAMESTOWN	4,029	119	201	0.05	874	0.22	5,104	150	78.9	3.9	17.1
NY	MIDDLETOWN	1,557	69	125	0.08	[illegible]	0.22	2,020	89	77.1	6.2	16.7
NY	MOUNT VERNON	5,610	81	453	0.08	1,217	0.22	7,280	106	77.1	6.2	16.7
NY	NEW ROCHELLE	4,534	66	652	0.14	983	0.22	6,169	90	73.5	10.6	15.9
NY	NEW YORK	555,632	76	48,662	0.09	120,519	0.22	724,813	99	76.7	6.7	16.6
NY	NEWBURGH	2,797	114	140	0.05	607	0.22	3,543	144	78.9	3.9	17.1
NY	NIAGARA FALLS	8,492	136	425	0.05	1,842	0.22	10,758	[illegible]	78.9	3.9	17.1
NY	POUGHKEEPSIE	3,210	107	187	0.06	696	0.22	4,094	[illegible]	78.4	4.6	17.0
NY	ROCHESTER	28,269	123	1,413	0.05	6,132	0.22	35,815	156	78.9	3.9	17.1
NY	ROME	3,231	78	203	0.06	701	0.22	4,135	100	78.1	4.9	16.9
NY	SCHENECTADY	7,494	112	375	0.05	1,625	0.22	9,494	142	78.9	3.9	17.1
NY	SYRACUSE	19,345	126	967	0.05	4,196	0.22	24,508	160	78.9	3.9	17.1

TABLE 3A: EDBG GRANT, STATE AND LOCAL MATCH, PROJECT TOTAL AND SHARES

ST	City	Grant		Local Match		State Match		Total Project Funding		Percentage Shares of Project Cost		
		Amount ($1000s)	Per Capita	Amount ($1000s)	Rate (Per $ of Grant)	Amount ($1000s)	Rate (Per $ of Grant)	Amount ($1,000s)	Per Capita	Fed	Local	State
NY	TONAWANDA TOWN	5,069	62	511	0.10	1,099	0.22	6,679	81	75.9	7.7	16.5
NY	TROY	6,263	120	313	0.05	1,359	0.22	7,935	152	78.9	3.9	17.1
NY	UNION TOWN	3,856	67	370	0.10	836	0.22	5,062	88	76.2	7.3	16.5
NY	UTICA	9,466	143	473	0.05	2,053	0.22	11,992	181	78.9	3.9	17.1
NY	WEST SENECA TOWN	0	0	NA	NA	0	0.22	NA	NA	NA	NA	NA
NY	WHITE PLAINS	2,863	64	459	0.16	621	0.22	3,943	88	72.6	11.6	15.8
NY	YONKERS	10,766	59	1,340	0.12	2,335	0.22	14,441	79	74.5	9.3	16.2
NC												
NC	ASHEVILLE	3,599	55	390	0.11	565	0.16	4,554	70	79.0	8.6	12.4
NC	BURLINGTON	1,059	28	242	0.23	166	0.16	1,468	39	72.2	16.5	11.3
NC	CHAPEL HILL	775	21	194	0.25	122	0.16	1,091	30	71.1	17.8	11.2
NC	CHARLOTTE	9,660	26	2,415	0.25	1,516	0.16	13,591	36	71.1	17.8	11.2
NC	CONCORD	791	26	195	0.25	124	0.16	1,110	37	71.3	17.5	11.2
NC	DURHAM	4,399	36	721	0.16	690	0.16	5,810	48	75.7	12.4	11.9
NC	FAYETTEVILLE	3,204	39	451	0.14	503	0.16	4,157	50	77.1	10.8	12.1
NC	GASTONIA	1,808	33	335	0.19	284	0.16	2,426	44	74.5	13.8	11.7
NC	GREENSBORO	4,732	26	1,183	0.25	742	0.16	6,657	37	71.1	17.8	11.2
NC	HICKORY	690	25	173	0.25	108	0.16	971	35	71.1	17.8	11.2
NC	HIGH POINT	2,361	35	416	0.18	370	0.16	3,147	47	75.0	13.2	11.8
NC	JACKSONVILLE	794	27	155	0.20	125	0.16	1,074	37	73.9	14.5	11.6
NC	KANNAPOLIS	1,427	43	173	0.12	224	0.16	1,824	56	78.2	9.5	12.3
NC	MORGANTON	409	26	87	0.21	64	0.16	560	35	73.0	15.6	11.5
NC	RALEIGH	3,956	21	989	0.25	621	0.16	5,566	30	71.1	17.8	11.2
NC	SALISBURY	947	38	151	0.16	149	0.16	1,246	50	76.0	12.1	11.9
NC	WILMINGTON	2,339	42	296	0.13	367	0.16	3,003	54	77.9	9.9	12.2
NC	WINSTON SALEM	4,849	33	1,003	0.21	761	0.16	6.614	44	73.3	15.2	11.5
ND												
ND	BISMARCK	754	18	189	0.25	108	0.14	1,051	22	71.8	17.9	10.3
ND	FARGO	1,486	21	372	0.25	213	0.14	2,071	30	71.8	17.9	10.3
ND	GRAND FORKS	1,096	23	265	0.24	157	0.14	1,518	31	72.2	17.5	10.4
OH												
OH	AKRON	20,982	95	1,219	0.06	3,499	0.17	25,700	116	81.6	4.7	13.6
OH	ALLIANCE	2,106	88	116	0.05	351	0.17	2,573	108	81.9	4.5	13.6
OH	BARBERTON	2,207	80	133	0.06	368	0.17	2,708	98	81.5	4.9	13.6
OH	BOWLING GREEN	953	38	108	0.11	159	0.17	1,220	49	78.1	8.9	13.0
OH	CANTON	9,105	106	455	0.05	1,518	0.17	11,079	129	82.2	4.1	13.7
OH	CINCINNATI	40,137	108	2,129	0.05	6,693	0.17	48,959	132	82.0	4.3	13.7
OH	CLEVELAND	80,026	153	4,001	0.05	13,344	0.17	97,371	187	82.2	4.1	13.7
OH	CLEVELAND HEIGHTS	4,398	82	397	0.09	733	0.17	5,528	103	79.6	7.2	13.3
OH	COLUMBUS	19,752	35	3,153	0.16	3,293	0.17	26,198	46	75.4	12.0	12.6
OH	DAYTON	21,060	118	1,053	0.05	3,511	0.17	25,624	144	82.2	4.1	13.7
OH	EAST CLEVELAND	3,025	89	169	0.06	504	0.17	3,698	109	81.8	4.6	13.6
OH	ELYRIA	1,455	25	310	0.21	242	0.17	2,007	35	72.5	15.4	12.1
OH	EUCLID	2,517	45	352	0.14	420	0.17	3,288	59	76.5	10.7	12.8
OH	HAMILTON CITY	4,316	66	343	0.08	720	0.17	5,379	82	80.2	6.4	13.4
OH	KENT	941	33	130	0.14	157	0.17	1,228	43	76.6	10.6	12.8
OH	KETTERING	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
OH	LAKEWOOD	5,458	94	404	0.07	910	0.17	6,773	116	80.6	6.0	13.4
OH	LANCASTER	1,362	39	195	0.14	227	0.17	1,785	51	76.3	10.9	12.7
OH	LIMA	3,662	75	226	0.06	611	0.17	4,498	97	81.4	5.0	13.6
OH	LORAIN	3,190	44	352	0.11	532	0.17	4,074	57	78.3	8.6	13.1
OH	MANSFIELD	2,584	50	281	0.11	431	0.17	3,296	64	78.4	8.5	13.1
OH	MARIETTA	1,246	79	81	0.07	208	0.17	1,535	97	81.2	5.3	13.5
OH	MASSILLON	1,968	61	161	0.08	328	0.17	2,458	76	80.1	6.5	13.4
OH	MIDDLETOWN	1,658	35	264	0.16	276	0.17	2,199	47	75.4	12.0	12.6
OH	NEWARK	2,516	61	221	0.09	420	0.17	3,157	77	79.7	7.0	13.3
OH	PARMA	1,352	15	338	0.25	226	0.17	1,916	21	70.6	17.6	11.8
OH	SPRINGFIELD	6,281	90	360	0.06	1,047	0.17	7,689	111	81.7	4.7	13.6
OH	STEUBENVILLE	2,594	116	130	0.05	433	0.17	3,157	141	82.2	4.1	13.7
OH	TOLEDO	21,004	62	1,897	0.09	3,502	0.17	26,403	77	79.6	7.2	13.3
OH	WARREN	3,842	74	278	0.07	641	0.17	4,761	92	80.7	5.8	13.5
OH	YOUNGSTOWN	14,350	142	718	0.05	2,393	0.17	17,461	173	82.2	4.1	13.7
OK												
OK	BROKEN ARROW	0	0	NA	NA	0	0.14	NA	NA	NA	NA	NA
OK	EDMOND	0	0	NA	NA	0	0.14	NA	NA	NA	NA	NA
OK	ENID	1,164	25	265	0.23	166	0.14	1,595	34	73.0	16.6	10.4
OK	LAWTON	3,144	38	399	0.13	447	0.14	3,990	48	78.8	10.0	11.2
OK	MIDWEST CITY	1,141	22	285	0.25	162	0.14	1,588	30	71.8	18.0	10.2
OK	NORMAN	1,823	23	445	0.24	259	0.14	2,527	32	72.1	17.6	10.3
OK	OKLAHOMA CITY	12,301	28	2,568	0.21	1,750	0.14	16,620	38	74.0	15.5	10.5
OK	SHAWNEE	1,408	54	124	0.09	200	0.14	1,732	66	81.3	7.1	11.6
OK	TULSA	8,947	24	2,237	0.25	1,273	0.14	12,457	34	71.8	18.0	10.2
OR												
OR	EUGENE	3,165	29	644	0.20	482	0.15	4,291	40	73.8	15.0	11.2
OR	GRESHAM	986	17	247	0.25	150	0.15	1,383	24	71.3	17.8	10.9
OR	MEDFORD	1,108	24	259	0.24	159	0.15	1,546	34	71.7	17.4	10.9

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OR	PORTLAND	27,120	84	2,554	0.09	4,133	0.15	33,807	80	80.2	7.6	12.2
OR	SALEM	2,309	24	540	0.23	352	0.15	3,201	33	72.1	16.9	11.0
OR	SPRINGFIELD	1,445	37	185	0.13	220	0.15	1,850	47	78.1	10.0	11.9
PA												
PA	ABINGTON TOWNSHIP	1,584	27	396	0.25	269	0.17	2,248	39	70.4	17.6	12.0
PA	ALLENTOWN	7,587	72	625	0.08	1,288	0.17	9,500	80	79.9	6.6	13.6
PA	ALTOONA	6,213	118	311	0.05	1,055	0.17	7,579	144	82.0	4.1	13.9
PA	BENSALEM TOWNSHIP	1,103	19	276	0.25	187	0.17	1,566	27	70.4	17.6	12.0
PA	BETHLEHEM	4,308	59	431	0.10	731	0.17	5,470	75	78.8	7.9	13.4
PA	BRISTOL TOWNSHIP	1,355	23	338	0.25	230	0.17	1,922	33	70.5	17.6	12.0
PA	CARLISLE	873	42	129	0.15	148	0.17	1,150	56	75.9	11.2	12.9
PA	CHESTER	5,559	131	278	0.05	944	0.17	6,781	159	82.0	4.1	13.9
PA	EASTON	2,687	98	136	0.05	456	0.17	3,279	120	81.9	4.1	13.9
PA	ERIE	10,447	93	556	0.05	1,774	0.17	12,779	113	81.8	4.4	13.9
PA	HARRISBURG	7,486	145	374	0.05	1,271	0.17	9,131	177	82.0	4.1	13.9
PA	HAVERFORD TOWNSHIP	2,373	46	430	0.18	403	0.17	3,206	63	74.0	13.4	12.6
PA	HAZLETON	2,836	112	142	0.05	482	0.17	3,460	137	82.0	4.1	13.9
PA	JOHNSTOWN	5,393	177	270	0.05	916	0.17	6,579	216	82.0	4.1	13.9
PA	LANCASTER	4,910	83	289	0.06	834	0.17	6,032	102	81.4	4.8	13.8
PA	LEBANON	2,444	91	142	0.06	415	0.17	3,001	112	81.4	4.7	13.8
PA	LOWER MERION TOWNSHIP	2,334	39	584	0.25	396	0.17	3,314	55	70.4	17.6	12.0
PA	MCKEESPORT	4,271	162	214	0.05	725	0.17	5,210	198	82.0	4.1	13.9
PA	NORRISTOWN	2,803	84	187	0.07	476	0.17	3,466	104	80.9	5.4	13.7
PA	PENN HILLS TOWNSHIP	1,239	23	310	0.25	210	0.17	1,759	33	70.4	17.6	12.0
PA	PHILADELPHIA	169,148	103	8,457	0.05	28,718	0.17	206,323	125	82.0	4.1	13.9
PA	PITTSBURGH	55,639	148	2,782	0.05	9,446	0.17	67,868	181	82.0	4.1	13.9
PA	READING	9,638	126	482	0.05	1,636	0.17	11,757	154	82.0	4.1	13.9
PA	SCRANTON	10,514	129	526	0.05	1,785	0.17	12,825	158	82.0	4.1	13.9
PA	SHARON	2,306	148	115	0.05	391	0.17	2,813	181	82.0	4.1	13.9
PA	STATE COLLEGE	1,914	58	137	0.07	325	0.17	2,375	72	80.6	5.6	13.7
PA	UPPER DARBY TOWNSHIP	5,354	63	571	0.11	909	0.17	6,834	80	78.3	8.3	13.3
PA	WILKES-BARRE	6,027	128	301	0.05	1,023	0.17	7,351	156	82.0	4.1	13.9
PA	WILLIAMSPORT	3,967	125	198	0.05	673	0.17	4,838	152	82.0	4.1	13.9
PA	YORK	4,961	109	248	0.05	842	0.17	6,052	133	82.0	4.1	13.9
RI												
RI	CRANSTON	2,562	34	507	0.20	436	0.17	3,506	46	73.1	14.5	12.4
RI	EAST PROVIDENCE	1,639	32	313	0.19	279	0.17	2,231	43	73.5	14.0	12.5
RI	PAWTUCKET	5,781	78	401	0.07	985	0.17	7,166	97	80.7	5.6	13.7
RI	PROVIDENCE	18,767	120	938	0.05	3,197	0.17	22,902	147	81.9	4.1	14.0
RI	WARWICK	1,626	19	407	0.25	277	0.17	2,309	27	70.4	17.6	12.0
RI	WOONSOCKET	3,630	81	221	0.06	618	0.17	4,470	100	81.2	4.9	13.8
SC												
SC	ANDERSON	2,546	86	162	0.06	347	0.14	3,055	104	83.3	5.3	11.4
SC	CHARLESTON	3,649	45	482	0.13	498	0.14	4,628	57	78.8	10.4	10.8
SC	COLUMBIA	4,390	46	480	0.11	599	0.14	5,469	58	80.3	8.8	11.0
SC	FLORENCE	1,458	45	179	0.12	199	0.14	1,835	57	79.4	9.7	10.8
SC	GREENVILLE	3,323	56	374	0.11	453	0.14	4,150	70	80.1	9.0	10.9
SC	NORTH CHARLESTON	2,608	35	376	0.14	356	0.14	3,340	44	78.1	11.3	10.7
SC	ROCK HILL	1,395	32	212	0.15	190	0.14	1,797	41	77.6	11.8	10.6
SC	SPARTANBURG	2,072	46	254	0.12	283	0.14	2,609	57	79.4	9.7	10.8
SD												
SD	RAPID CITY	1,414	25	295	0.21	191	0.13	1,900	34	74.4	15.5	10.0
SD	SIOUX FALLS	1,799	18	450	0.25	243	0.13	2,492	25	72.2	18.1	9.7
TN												
TN	BRISTOL	711	30	140	0.20	109	0.15	960	41	74.1	14.6	11.3
TN	CHATTANOOGA	6,960	43	907	0.13	1,066	0.15	8,933	55	77.9	10.2	11.9
TN	CLARKSVILLE	1,807	25	346	0.19	277	0.15	2,429	33	74.4	14.2	11.4
TN	JACKSON	2,012	38	275	0.14	308	0.15	2,595	49	77.5	10.6	11.9
TN	JOHNSON CITY	1,459	32	266	0.18	223	0.15	1,949	43	74.9	13.7	11.5
TN	KINGSPORT	976	31	204	0.21	149	0.15	1,329	42	73.4	15.4	11.2
TN	KNOXVILLE	7,016	41	926	0.13	1,075	0.15	9,017	52	77.8	10.3	11.9
TN	MEMPHIS	33,659	52	3,418	0.10	5,155	0.15	42,233	65	79.7	8.1	12.2
TN	MURFREESBORO	1,117	24	270	0.24	171	0.15	1,558	34	71.7	17.3	11.0
TN	NASHVILLE-DAVIDSON	13,756	27	3,404	0.25	2,107	0.15	19,267	38	71.4	17.7	10.9
TN	OAK RIDGE	520	13	130	0.25	80	0.15	729	26	71.3	17.8	10.9
TX												
TX	ABILENE	3,200	29	543	0.17	521	0.16	4,264	39	75.0	12.7	12.2
TX	AMARILLO	4,267	26	964	0.23	699	0.16	5,930	36	72.0	16.3	11.7
TX	ARLINGTON	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
TX	AUSTIN	14,345	31	2,822	0.20	2,338	0.16	19,504	42	73.5	14.5	12.0
TX	BAYTOWN CITY	1,949	31	361	0.19	318	0.16	2,628	42	74.2	13.7	12.1
TX	BEAUMONT	5,229	46	633	0.12	852	0.16	6,714	59	77.9	9.4	12.7
TX	BROWNSVILLE	8,668	83	433	0.05	1,412	0.16	10,514	101	82.4	4.1	13.4
TX	BRYAN	2,239	37	291	0.13	365	0.16	2,895	45	77.3	10.1	12.6
TX	CARROLLTON	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
TX	COLLEGE STATION	2,032	47	173	0.09	331	0.16	2,536	58	80.1	6.8	13.1

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TX	CORPUS CHRISTI	11,395	44	1,283	0.11	1,857	0.16	14,535	56	78.4	[illegible]	12.8
TX	DALLAS	36,095	37	6,818	0.19	5,882	0.16	48,795	49	74.0	14.0	12.1
TX	DENISON	1,041	43	125	0.12	170	0.16	1,336	56	77.9	9.4	12.7
TX	DENTON	1,559	27	317	0.20	254	0.16	2,130	37	73.2	14.9	11.9
TX	EDINBURG	2,279	69	114	0.05	371	0.16	2,764	84	82.4	4.1	13.4
TX	EL PASO	26,324	51	2,173	0.08	4,289	0.16	32,787	64	80.3	6.6	13.1
TX	FORT WORTH	14,917	35	2,420	0.16	2,431	0.16	19,768	46	75.5	12.2	12.3
TX	GALVESTON	4,452	78	313	0.07	725	0.16	5,490	97	81.1	5.7	13.2
TX	GARLAND	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
TX	GRAND PRAIRIE	2,192	22	548	0.25	357	0.16	3,098	31	70.8	17.7	11.5
TX	HARLINGEN	3,370	60	212	0.06	549	0.16	4,131	73	81.6	5.1	13.3
TX	HOUSTON	64,383	38	10,439	0.16	10,491	0.16	85,313	50	75.5	12.2	12.3
TX	IRVING	2,220	17	555	0.25	362	0.16	3,137	24	70.8	17.7	11.5
TX	KILLEEN	2,437	38	274	0.11	397	0.16	3,108	48	78.4	8.8	12.8
TX	LAREDO	9,799	78	490	0.05	1,597	0.16	11,886	95	[illegible]	4.1	13.4
TX	LONGVIEW	2,021	28	394	0.19	329	0.16	2,745	38	73.6	14.4	12.0
TX	LUBBOCK	6,973	37	1,016	0.15	1,136	0.16	9,125	49	76.4	11.1	12.5
TX	MARSHALL	1,286	54	104	0.08	210	0.16	1,600	67	80.4	6.5	13.1
TX	MC ALLEN	5,327	61	368	0.07	868	0.16	6,563	75	81.2	5.6	13.2
TX	MESQUITE	1,301	14	325	0.25	212	0.16	1,839	20	70.8	17.7	11.5
TX	MIDLAND	2,045	21	511	0.25	333	0.16	2,890	30	70.8	17.7	11.5
TX	MISSION	2,214	66	111	0.05	361	0.16	2,685	80	82.4	4.1	13.4
TX	ODESSA	3,364	35	537	0.16	548	0.16	4,449	47	75.6	12.1	12.3
TX	ORANGE	1,071	44	118	0.11	175	0.16	1,364	57	78.5	8.7	12.8
TX	PASADENA	3,360	29	630	0.19	547	0.16	4,537	39	74.1	13.9	12.1
TX	PHARR	3,050	95	153	0.05	497	0.16	3,700	115	82.4	4.1	13.4
TX	PLANO	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
TX	PORT ARTHUR	4,517	76	268	0.06	736	0.16	5,521	93	81.8	4.9	13.3
TX	RICHARDSON	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
TX	SAN ANGELO	2,771	32	443	0.16	451	0.16	3,665	42	75.6	12.1	12.3
TX	SAN ANTONIO	46,487	49	4,251	0.09	7,575	0.16	58,313	62	79.7	7.3	13.0
TX	SAN BENITO	1,694	77	85	0.05	276	0.16	2,055	94	82.4	4.1	13.4
TX	SHERMAN	738		182	0.25	120	0.16	1,040	33	71.0	17.5	11.6
TX	TEMPLE	1,571	[illegible]	256	0.16	256	0.16	2,083	45	75.4	12.3	12.3
TX	TEXARKANA	1,5[illegible]	46	163	0.11	246	0.16	1,919	58	78.7	[illegible]	12.8
TX	TEXAS CITY	1,[illegible]	31	213	0.17	205	0.16	1,677	41	75.1	12.7	12.2
TX	TYLER	2,4[illegible]	32	435	0.18	392	0.16	3,235	43	74.4	13.4	12.1
TX	VICTORIA	2,190	40	285	0.13	357	0.16	2,831	51	77.3	10.1	12.6
TX	WACO	4,852	47	481	0.10	791	0.16	6,124	59	79.2	7.9	12.9
TX	WICHITA FALLS	4,059	41	512	0.13	661	0.16	5,232	53	77.6	9.8	12.6
UT												
UT	OGDEN	3,633	55	340	0.09	471	0.13	4,444	67	81.7	7.7	10.6
UT	OREM	1,830	28	257	0.14	237	0.13	2,324	36	78.7	11.1	10.2
UT	PROVO	4,938	67	257	0.05	641	0.13	5,836	80	84.6	4.4	11.0
UT	SALT LAKE CITY	13,252	87	865	0.07	1,719	0.13	15,836	104	83.7	5.5	10.9
UT	SANDY CITY	1,131	15	283	0.25	147	0.13	1,561	21	72.5	18.1	9.4
UT	WEST JORDAN	927	18	197	0.21	120	0.13	1,244	25	74.5	15.8	9.7
UT	WEST VALLEY	2,058	22	397	0.19	267	0.13	2,722	29	75.6	14.6	9.8
VT												
VT	BURLINGTON	2,305	62	216	[illegible]	388	0.17	2,909	78	79.2	7.4	13.4
VA												
VA	ALEXANDRIA	0	0	NA	NA	0	0.19	NA	NA	NA	NA	NA
VA	BRISTOL	880	50	95	0.11	166	0.19	1,142	65	77.1	8.4	14.5
VA	CHARLOTTESVILLE	1,694	41	268	0.16	319	0.19	2,281	55	74.3	11.8	14.0
VA	CHESAPEAKE	3,250	22	813	0.25	612	0.19	4,675	32	69.5	17.4	13.1
VA	COLONIAL HEIGHTS	0	0	NA	NA	0	0.19	NA	NA	NA	NA	NA
VA	DANVILLE	2,904	54	290	0.10	547	0.19	3,741	70	77.6	7.7	14.6
VA	HAMPTON	3,303	25	792	0.24	622	0.19	4,718	36	70.0	16.8	13.2
VA	HOPEWELL	688	28	130	0.19	130	0.19	948	38	72.6	13.7	13.7
VA	LYNCHBURG	1,988	28	418	0.21	374	0.19	2,780	40	71.5	15.0	13.5
VA	NEWPORT NEWS	4,541	28	934	0.21	855	0.19	6,329	40	71.7	14.8	13.5
VA	NORFOLK	13,856	48	1,477	0.11	2,608	0.19	17,941	63	77.2	8.2	14.5
VA	PETERSBURG	1,987	47	225	0.11	374	0.19	2,585	61	76.8	8.7	14.5
VA	PORTSMOUTH	5,355	50	540	0.10	1,008	0.19	6,903	64	77.6	7.8	14.6
VA	RICHMOND	13,235	62	1,333	0.10	2,491	0.19	17,058	80	77.6	7.8	14.6
VA	ROANOKE	5,226	53	580	0.11	984	0.19	6,790	70	77.0	8.5	14.5
VA	SUFFOLK	2,034	39	305	0.15	383	0.19	2,723	52	74.7	11.2	14.1
VA	VIRGINIA BEACH	0	0	NA	NA	0	0.19	NA	NA	NA	NA	NA
WA												
WA	AUBURN	666	21	166	0.25	111	0.17	944	30	70.6	17.6	11.8
WA	BELLEVUE	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
WA	BELLINGHAM	1,903	41	265	0.14	318	0.17	2,487	54	76.5	10.7	12.8
WA	BREMERTON	1,037	28	199	0.19	173	0.17	1,409	38	73.6	14.1	12.3
WA	EVERETT	1,872	30	360	0.19	313	0.17	2,544	41	73.6	14.1	12.3
WA	FEDERAL WAY	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
WA	KENNEWICK	927	23	230	0.25	155	0.17	1,312	33	70.7	17.5	11.8

TABLE 3A: EDBG GRANT, STATE AND LOCAL MATCH, PROJECT TOTAL AND SHARES

ST	City	Grant Amount ($1000s)	Grant Per Capita	Local Match Amount ($1000s)	Local Match Rate (Per $ of Grant)	State Match Amount ($1000s)	State Match Rate (Per $ of Grant)	Total Project Funding Amount ($1,000s)	Total Project Funding Per Capita	Percentage Shares of Project Cost Fed	Percentage Shares of Project Cost Local	Percentage Shares of Project Cost State
WA	OLYMPIA	752	24	188	0.25	126	0.17	1,066	34	70.6	17.6	11.8
WA	PASCO	954	54	78	0.08	160	0.17	1,192	68	80.1	6.5	13.4
WA	RICHLAND	0	0	NA	NA	0	0.17	NA	NA	NA	NA	NA
WA	SEATTLE	34,384	68	3,712	0.11	5,753	0.17	43,849	87	78.4	8.5	13.1
WA	SPOKANE	11,197	86	932	0.08	1,874	0.17	14,003	82	80.0	6.7	13.4
WA	TACOMA	7,684	47	870	0.11	1,286	0.17	9,839	60	78.1	8.8	13.1
WA	YAKIMA	2,024	41	276	0.14	339	0.17	2,639	54	76.7	10.5	12.8
WV												
WV	CHARLESTON	6,329	114	401	0.06	811	0.13	7,541	135	83.9	5.3	10.8
WV	HUNTINGTON	6,925	123	346	0.05	887	0.13	8,158	145	84.9	4.2	10.9
WV	PARKERSBURG	3,196	85	199	0.06	409	0.13	3,804	101	84.0	5.2	10.8
WV	WEIRTON	1,392	63	129	0.09	178	0.13	1,700	77	81.9	7.6	10.5
WV	WHEELING	4,720	121	236	0.05	605	0.13	5,560	143	84.9	4.2	10.9
WI												
WI	APPLETON	1,358	20	339	0.25	222	0.16	1,919	29	70.7	17.7	11.6
WI	BELOIT	1,913	57	174	0.09	313	0.16	2,400	72	79.7	7.2	13.0
WI	EAU CLAIRE	1,761	32	280	0.16	288	0.16	2,329	42	75.6	12.0	12.4
WI	GREEN BAY	2,273	24	567	0.25	372	0.16	3,211	34	70.8	17.6	11.6
WI	JANESVILLE	1,243	24	311	0.25	203	0.16	1,757	34	70.7	17.7	11.6
WI	KENOSHA	3,003	39	445	0.15	491	0.16	3,938	52	76.2	11.3	12.5
WI	LA CROSSE	2,995	62	271	0.09	490	0.16	3,756	78	79.7	7.2	13.0
WI	MADISON	4,564	25	1,141	0.25	747	0.16	6,451	36	70.7	17.7	11.6
WI	MILWAUKEE	50,356	84	3,251	0.06	8,238	0.16	61,845	103	81.4	5.3	13.3
WI	NEENAH	495	21	124	0.25	81	0.16	699	30	70.7	17.7	11.6
WI	OSHKOSH	2,395	46	293	0.12	392	0.16	3,080	59	77.8	9.5	12.7
WI	RACINE	5,349	65	484	0.09	875	0.16	6,708	81	79.7	7.2	13.0
WI	SHEBOYGAN	2,633	56	275	0.10	431	0.16	3,339	71	78.9	8.2	12.9
WI	SUPERIOR	2,688	100	135	0.05	440	0.16	3,263	121	82.4	4.1	13.5
WI	WAUKESHA	0	0	NA	NA	0	0.16	NA	NA	NA	NA	NA
WI	WAUSAU	1,967	57	205	0.10	322	0.16	2,494	72	78.9	8.2	12.9
WI	WAUWATOSA	2,735	55	426	0.16	447	0.16	3,609	73	75.8	11.8	12.4
WI	WEST ALLIS	3,324	52	399	0.12	544	0.16	4,267	67	77.9	9.3	12.7
WY												
WY	CASPER	1,284	30	254	0.20	243	0.19	1,780	42	72.1	14.2	13.6
WY	CHEYENNE	978	18	244	0.25	185	0.19	1,407	26	69.5	17.4	13.1

Mr. WISE. While we are waiting for our next witness, under the leadership of Ms. Molinari you can see we are moving this thing right along.

The committee will stand in recess briefly while waiting for the next recess.

[Recess.]

Mr. WISE. The subcommittee will resume its hearing.

We want to thank the gentleman from New Mexico expediting his appearance here. We are happy to tell you that we are discussing short-term economic stimulus and trying to move quickly. We have heard from every witness and we are even ahead of schedule.

TESTIMONY OF HON. JOE SKEEN, A REPRESENTATIVE IN CONGRESS FROM NEW MEXICO

Mr. SKEEN. I appreciate the opportunity, Mr. Chairman, to offer my thoughts to the Members of the Subcommittee on Economic Development of the Public Works and Transportation Committee on the importance of infrastructure investment.

As Co-Chairman of the Congressional Border Caucus with Representative Ron Coleman, who also serves with me on the Appropriations Committee, I share the convictions held by Members of the Border Caucus from California, Texas, Arizona and New Mexico that the investment in border infrastructure is both necessary and wise public policy.

In previous hearings you have heard from economic experts offering differing opinions as to the extent investment and infrastructure would spur economic growth. Investment in this area is most successful when it serves not as an end in itself, but instead provides the means for other businesses to begin and to grow.

Investment in United States-Mexico border infrastructure has never been so important as now and it is clear that the North American Free Trade Agreement, known as NAFTA, will increase the commerce and economic development along our southern board.

Yet, our infrastructure cannot handle this increased traffic, and as trade increases, so will the need for a quality transportation network, and environmental protection such as pollution control centers and wastewater treatment plants.

Our high hopes of job creation and economic hopes may well be dashed without investment in the transportation infrastructure around our Nation's border region. Without intermodal transportation systems, roads, bridges, and trade will be stifled and job creation limited.

Studies have estimated NAFTA could increase the number of export-related jobs from 60,000 to over 1 million by 1995. These are quality jobs with high wages. Export-related jobs pay around 17 percent more than the average U.S. wage, and wise investments now may result in the creation of hundreds of thousands of quality jobs for Americans in the future.

In addition, significant infrastructure investment in the border region is needed to keep pace with growing commercial traffic. What is needed is an intermodal transportation system. Such an investment would significantly increase the mobility of goods and services throughout the border area.

Infrastructure investment is also needed to protect the environment. The rapid growth of industry and formation of shanty towns known as colonias around the border has increased the need for wastewater projects, pollution control, and drinking water projects. That is a very serious concern because of the advent of outbreaks of cholera amongst these communities.

The population growth around the border has created the need for increased investment in health care. At this time doctors are required by law to provide emergency trauma and labor delivery care to aliens as well as citizens regardless of their ability to pay. School buses actually stop at the Mexican border to pick up children to take to U.S. schools.

New Mexico and the entire border region needs service-delivery improvements to poor and rural areas and increased health care facilities and disease prevention programs that address the growing needs of new immigrants and their families.

At this time, New Mexico and Texas do not have the medical personnel or the health care facilities or the educational funds to meet these needs or ease the strain upon existing facilities and health care workers.

The best infrastructure investments are those which not only create short-term jobs but those which provide the foundation necessary for significant and sustained economic growth and job creation. Investment in the border region in general and New Mexico in particular will accomplish this goal in an unsurpassed way.

Before the United States can reap the benefits of increased trade with Mexico, we must have the infrastructure necessary to sustain that trade and take advantage of the resulting opportunities and growth potential.

Again, I appreciate the opportunity to address this committee, and I urge you to invest in an area with perhaps the greatest needs and potential for economic growth in our Nation today.

I thank you for the opportunity to appear before you today.

Mr. WISE. I definitely appreciate the gentleman appearing.

You have brought before the subcommittee examples that we have not heard previously, those along the border. You have certainly gotten my mental wheels whirring on this, that with the likelihood of a NAFTA free trade agreement, it would seem that the need for the kind of infrastructure spending you are talking about is only going to increase.

Mr. SKEEN. That is absolutely correct. The pressure is already there, because we have had the Maquiladora system going on, which is the cooperative effort between Mexico and the United States on manufacturing. We have already experienced a tremendous strain on the infrastructure, and particularly in the area of this colonias I mentioned in text of my presentation. It is becoming a health hazard and there is no way to control it other than to provide infrastructure for it, particularly in the sewage and wastewater treatment. We did invest it in that particular undertaking last year in the VA-HUD Appropriations legislation.

Mr. WISE. It is also my understanding from my colleagues farther to the west who live along the border that there are similar problems in California, particularly trying to treat sewage that is flowing from Mexico, and working with the Mexican governments

to deal with that environmental concern, which is only growing, as I understand it.

Mr. SKEEN. Very serious problem, and it is growing worse day by day. We appreciate your consideration and concern.

Mr. WISE. Ms. Molinari.

Ms. MOLINARI. I just want to thank Congressman Skeen for coming. Obviously those of us who are from other areas of the country analyze NAFTA from a much different perspective, that is in terms of the global and national impacts, and really fail to think about the particulars that are going to make it work or make it not work.

I think you raised an issue that, while maybe good for your district, it is certainly essential for New York to gain from NAFTA. An investment must be felt nationally, if we are going to support NAFTA and make it work for all of our communities.

Mr. SKEEN. I appreciate the sensitivity and the perspective that you have, because a lot of people in the United States today say, That is a border problem, we are not going to worry about it; besides that, you are taking jobs out of New York and Ohio. That is not the case.

The case is it generates an economy that spreads nationwide and becomes a nationwide problem, particularly in an area where we are hard put to find the tax dollars because we are small population States, in most cases public land States with a very small tax base, and it is very difficult for to us make up the infrastructure shortcomings that we have, particularly when it involves health problems such as those that are created by the colonias.

Ms. MOLINARI. I think we have all got to develop a different attitude. We need to place much more emphasis on becoming exporters. One thing that seems to hamper any one of our States' abilities to increase exports and to profit from it, is our infrastructure. We have not come up with an ability to deliver goods in an efficient and productive way.

You have got us all thinking of perhaps a different train, if you will excuse my phrasing.

Mr. SKEEN. It has been expanding and changing drastically. It is going to be an ever increasing problem, is for populated States as well as those sparsely populated.

So I thank you for your concern and consideration and attention today.

Ms. MOLINARI. Thank you for your testimony.

Mr. WISE. You have broadened my horizons. I used to think that border problems were only those that West Virginia had with Virginia and Maryland.

Ms. Molinari mentions exporting. I believe Virginia is the third-highest exporting State in the Nation. What happens in NAFTA and other agreements is vital, and we need to look at your situation as an investment in our future.

Mr. SKEEN. We are such a wonderfully large country that we tend to focus on just those resources that affect us. That is the value of having a Congress situated as we are, with the attitude that we can listen to each other's problems and help out. That is what makes it great representing people from areas like mine in conjunction with people from areas like yours.

Mr. WISE. We greatly appreciate it. Thank you, sir.

The committee has one more witness to hear from, who is on his way. It is my understanding the gentleman from Wisconsin, Mr. Barrett.

Mr. WISE. I will declare the committee in recess pending the arrival of the next witness.

[Recess.]

Mr. WISE. The hearing of the Economic Development Subcommittee will resume.

I would like to ask unanimous consent to leave the record open for a period of a week so that any Member who wishes to may present a statement or introduce a statement into the record. Hearing no objection.

We would like to have join us the gentleman from Wisconsin. You are not late. We are early. And we appreciate greatly your interest in this subject.

It is our hope and our intention that there will be a short-term economic stimulus package, of which a significant portion of that will deal with infrastructure. We greatly look forward to your observations on how that should be structured or what should be in it, any thoughts you have.

TESTIMONY OF HON. THOMAS M. BARRETT, A REPRESENTATIVE IN CONGRESS FROM WISCONSIN

Mr. BARRETT. Thank you, Mr. Chairman.

Let me start off by saying this is the first time I have appeared before a committee. So I am excited to be here. Please keep the applause until I am done.

I want to thank the Chairman and the Ranking Republican Member for asking me to appear before the subcommittee to discuss my ideas for an infrastructure program. Specifically I want to address an area of infrastructure that is in dire need of funding: our schools and other educational facilities.

I know you have heard from other Members and Governors who have spoken eloquently about the need to rebuild and expand our transportation systems and to initiate projects that will clean up our environment. I wholeheartedly agree with those sentiments and agree these projects must be important elements of any infrastructure program. But I don't believe that they should be the only projects funded through the program. They must also include schools. And our schools, especially those in the larger cities, need the funds badly.

The fact is that many young people are not receiving the education they need because of poor facilities. In the city of Milwaukee, which I represent, some kids are literally being taught in hallways and boiler rooms. Some 6,000 children are not able to receive kindergarten education, and class sizes for grades 1 and 2 are much larger than recommended.

I know it is as bad or worse in other communities across the country. Unfortunately, most cities do not have the tax base needed to fund their educational needs. That is why we must look to the Federal Government for help.

We all hear a lot of talk about how we are losing generations of young people in our cities. Obviously one of the reasons for this hopelessness is the fact that our public schools are not up to par.

I think it is a sad commentary on our society if we are not willing to at least provide the facilities kids need to get a decent education.

This is not a new idea. Our country's last infrastructure program in the 1970s included education-related projects.

I believe it is time once again to improve our educational infrastructure. What better way to invigorate our economy and at the same time improve our children's future?

Thank you.

Mr. WISE. I think you make an excellent point. One of the proposals for a short-term infrastructure package has been to focus some portion of monies on rehabilitation and renovation of existing structures, whether it be highways, whether it is water treatment plants, or whether it be public buildings such as schools. And it would seem to me this is an area that you could quickly get the funding in and out school rehab.

I know in my State, and I am sure it is the same in yours, particularly in rural areas, school systems right now are going through the throes in many cases of redistricting and consolidation, in which you are trying to take two or three older schools and turn them into one school, a new facility with the most modern advantages. But, for instance, in our State it has been necessary for the State to come up with its own building fund to assist in that and do a bond issue. This would seem to lend itself to that kind of effort very well.

Mr. BARRETT. I think it would. And for some districts—I will use mine as an example again. I have a very compact urban district, so we don't have a lot of roads. To the extent the package is going to be an economic stimulus package, since we don't have a lot of roads to be built in our community, if we are going to share in some of the dollars, this is part of the infrastructure where we could sink the dollars. And I think it is money well spent.

Mr. WISE. One of the ideas brought before this subcommittee, and I think the subcommittee is operating under as well, is that there ought to be maximum flexibility to the local areas, that they know the projects best for that area. It may be roads in one area, sewage treatment in another, and perhaps in your case school buildings. And as long as they meet certain basic and I say fairly broad criteria, they would qualify for that money for the short-term economic stimulus package.

So I definitely appreciate your appearing here.

I turn to Ms. Molinari.

Ms. MOLINARI. Thank you.

I want to welcome you to Congress and to this committee. Your perspective is not isolated. The New York City Building Congress came forth to testify that they would like us to look at expanding the definition of infrastructure to include schools and public hospitals and other public buildings. And I think that aside from just building new schools, if you come from an urban area, then you share in the same problems, health-related problems where many of our schools are still asbestos laden, and last year this committee and several other committees in Congress were forced to not look into lead in schools because we understood that the municipalities could not handle what we unearthed. And that is a devastating situation to put any elected official in.

I think maybe this might give us an opportunity to get to the bottom of what we need to do to improve the health effects of the educational environment in which we place our children.

I appreciate your comments.

Mr. BARRETT. Thank you very much.

Mr. WISE. The first shall be last and the last shall be first.

Ms. MOLINARI. We forgot to applaud.

[Mr. Barrett's prepared statement follows:]

STATEMENT OF CONGRESSMAN THOMAS M. BARRETT

I want to thank Chairman Wise and ranking Republican member Molinari for giving me the opportunity to appear before this subcommittee to discuss my ideas for an infrastructure program. Specifically, I would like to address my comments to an area of infrastructure that is in dire need of funding—our schools and other educational facilities.

I know that you have heard from other Members and Governors who have spoken eloquently about the need to rebuild and expand our transportation systems and to initiate projects that will clean up our environment. I wholeheartedly agree with these sentiments and believe these projects must be important elements of any infrastructure program.

But I don't believe they should be the only projects funded through the program. We must also include schools.

And our schools—especially those in the larger cities—need the funding badly. The fact is that many young people are not receiving the education they need because of poor facilities. In the city of Milwaukee, which I represent, some kids are literally being taught in hallways and boiler rooms. Some 6,000 children are not able to receive full kindergarten education because of lack of facilities and class sizes in grades 1 and 2 are much larger than recommended.

I know the situation is just as bad or worse in other communities across the country. According to one estimate, there is a need for $100 billion in school construction and repair nationwide.

Unfortunately, most cities do not have the tax base needed to fund their educational needs. That is why we must look to the Federal Government for help.

We all hear a lot of talk about how we are losing generations of young people in our cities. Obviously, one of the reasons for this hopelessness is the fact that our public schools are not up to par. I think it is a sad commentary on our society if we are not willing to at least provide the facilities kids need to get a decent education.

This is not a new idea. Our country's last infrastructure program in the 1970's included education-related projects.

I believe it is time once again to improve our educational infrastructure. What better way to invigorate our economy and at the same time improve our children's future?

Mr. WISE. At this point, let me just say this concludes a series of three hearings on "Investing in Our Nation's Infrastructure," and for those of you who have become quite attached to this room, take heart, I am confident it will not be the last.

The subcommittee will now begin to look at what legislative vehicle and form such legislation should take, and in terms of a longer-term package, I suspect we are going to be reconvening very shortly on that issue as well.

I want to thank the staffs on both sides, Republican and Democrat, for the excellent job you have done in putting together these panels on such short notice and putting all this together.

I declare this hearing adjourned.

[Whereupon, at 1:35 o'clock p.m., the subcommittee was adjourned.]

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